Accountancy

ESTABLISHED 1889

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Valuing a Business

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Reform of Bankruptcy Law

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THE SOCIETY OF INCORPORATED ACCOUNTANTS

SEPTEMBER 1957

TWO SHILLINGS

The Society

of

Incorporated Accountants

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Members use the designation Incorporated Accountant. Fellows may also use the initial letters F.S.A.A., and Associates A.S.A.A.

Admission to membership is by examination subject to satisfactory completion of articles of clerkship for five years (university graduates three years.) Six years' approved professional experience may be accepted in lieu of five years' articles. Exemption from the Preliminary Examination is granted on production of certain educational certificates.

Articles may also be integrated with full-time study at certain universities. Under this scheme a specific university degree and the professional qualification can be attained in a total period of 5¾ years.

All candidates must pass the Intermediate and Final Examinations, except that graduates under the universities scheme are exempted from the Society's Intermediate Examination.

There are Branches of the Society in Scotland, Ireland, Canada, Australia, South Africa and Central Africa, and District Societies in all parts of England and Wales, Northern Ireland, and India. Students' Societies and Students' Sections operate throughout Great Britain, Northern Ireland, and Eire.

Members of the Society are not allowed to seek professional business by advertisements or circulars.

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Professional Notes

Integration

AS WE GO to press the result is not known of the applications by the three Chartered Institutes for allowance to amend their constitutions to permit integration with the Society of Incorporated Accountants. On the changes in the constitutions of the Institutes receiving the sanction of the Privy Council (for the English and Scottish Institutes) and of the Governor and Privy Council of Northern Ireland and the Government of the Republic of Ireland (for the Irish Institute), the Society will convene at the earliest possible time an extraordinary general meeting for the purpose of placing itself in liquidation.

The date for the coming into effect of the schemes of integration would follow by a short interval the liquidation meeting of the Society. It is not possible to say at this stage what is likely to be the effective date, but it could hardly be before the end of 1957. Until the effective date, members of the Society would continue exactly as at present. Thereafter, they would be invited to apply for admission to one of the three Chartered Institutes, but until the formalities of their admission had been completed they would, again, continue exactly as at present.

Meantime, the Council of the Institute of Chartered Accountants in England and Wales has issued a preliminary statement on the granting of Institute articles to clerks serving members of the Institute under Society articles or as bye-law candidates. The statement is to the effect that, after the effective date, though the present quota of two articled clerks may be filled, a member may grant Institute articles to clerks serving under Society articles or to bye-law candidates of the Society, provided that such clerks or bye-law candidates were in the em-

ployment of the member on August 7, 1957, or first entered the profession and his employment after that date and before the effective date. In effect, the Society articled clerks and bye-law candidates will be regarded as supernumerary to the present quota of two articled clerks.

Bankruptcy Law Reviewed

FOR THE FIRST time in nearly half a century the law of bankruptcy and deeds of arrangement has been comprehensively reviewed. In less than two years from its appointment, the Committee on Bankruptcy Law and Deeds of Arrangement Law Amendment has now presented its report (Command 221, H.M. Stationery Office, price 4s. 6d. net).

His Honour Judge Blagden, the chairman, who incidentally has been an editor of *Williams on Bankruptcy*, and the members of the Committee, are to be congratulated on having produced so expeditiously such a thorough and detailed report. Anyone familiar with the subject will realise the enormous amount of work involved.

The terms of reference seemed to relate mainly to regulations concerning the discharge of bankrupts and any related alterations to deeds of arrangement. But suggestions for other alterations were invited, and the evidence ranged over such a wide field that the inquiry developed into a comprehensive examination of the legal effect and practical working of the law on bankruptcy and deeds of arrangement. The Committee held 103 meetings; at 25 of them oral evidence was heard (including evidence from the Society of Incorporated Accountants).

The Committee accepts as sound the existing structure of bankruptcy law. The principal defect is in the discharge of bankrupts. There should be, recommends the Committee, an automatic discharge, without application, of every bankrupt two years after the Court order concluding his public examination, unless a *caveat* against the discharge has been entered by the Court. If a *caveat* is entered, the bankrupt will remain undischarged unless and until he makes application for his discharge, and he will have to report to the Official Receiver at six-monthly intervals.

The Committee recommends that existing undischarged bankrupts, numbering between thirty and forty thousand, should be given an automatic discharge two years from the date of any new Act, provided no *caveat* is entered in the meantime.

An important recommendation is that all appointed trustees should hold professional qualifications.

There are many other recommendations in the report—on, among other topics, the priority of debts, the rights of landlords and execution creditors, the avoidance of preferences, the apportionment of part of a bankrupt's pay, the powers of County Court Registrars, orders for summary administration, the removal of difficulties in bringing bankruptcy proceedings, the more effective control over debtors and trustees under deeds of arrangement.

With the help of suggestions from the Bankruptcy Department of the Board of Trade and from various organisations and individuals, the Committee has drafted amended Acts. These drafts, which are not published with the report, contain as well as the major recommendations all minor and consequential amendments; the Committee strongly urges that, to avoid confusion and difficulty in ascertaining the law, there should be one comprehensive and amended Bankruptcy Act and one such Deeds of Arrangement Act, not amending Acts.

On pages 385-6 of this issue of ACCOUNTANCY we give a summary of the principal recommendations of the Committee.

Economic Triumvirate

THE IMPARTIAL three who form the Council on Prices, Productivity and Incomes are a lawyer, an economist and an accountant.

Lord Cohen, the Chairman of the Council, has been a Lord of Appeal in Ordinary since 1951. He was born in 1888, called to the Bar in 1913, became a King's Counsel in 1929 and was made a Judge of the Chancery Division in 1943. He was chairman of the famous Company Law Amendment Committee, whose report, which appeared in 1945, led to the Companies Act of 1948. He preceded Lord Radcliffe as Chairman of the Royal Commission on the Taxation of Profits and Income.

Sir Dennis Robertson was until recently Professor of Political Economy in the University of Cambridge. He was born in 1890. He held a Readership in Economics at Cambridge and for a time before the war a Chair at London. From 1939 he was an adviser at the Treasury. Sir Dennis has written copiously on economics, in a witty and pungent style. By fellow economists he is perhaps the most widely respected of contemporary economists in this country, although by holding back from the more popular forms of economic discussion he has not become well known by the general public.

Sir Harold Gibson Howitt is a Chartered Accountant and a partner in Peat, Marwick, Mitchell and Co. He was born in 1886. He became an Associate of the Institute of Chartered Accountants in England and Wales in 1909, a Fellow in 1918, a member of the Council in 1931 and President for 1945/46. He was President of the Sixth International Congress on Accounting held in London in 1952. In the following year he was elected an Honorary Member of the Society of Incorporated Accountants. In the course of his distinguished career in accountancy, Sir Harold has served on many Government committees. In 1954 he was a member of the Courts of Inquiry into the engineering and shipbuilding disputes, which first put forward the idea that there should be set up a body to report on prices and incomes.

The Government failed to enlist the support of the trade unions in the formation of the Council, and it is perhaps a result of this failure that the members are impartial and not representative of Government, employers or workers. The disinterestedness of the three members gives some hope that the Council can have an influence upon economic trends —in particular, upon the pace of the wage inflation—that could not possibly have been exercised by the re-

presentative body which the Government seemed to be intending to form.

Mr. A. Stuart Allen and Mr. F. A. Prior

WE ANNOUNCE with great regret the deaths of two Council Members of the Society of Incorporated Accountants, Mr. A. Stuart Allen who was a Past-President, and Mr. F. A. Prior. Both deaths occurred on August 11.

Albert Stuart Allen was 67 years of age. He qualified as an Incorporated Accountant in 1926, after service under articles to the late Mr. A. F. Saunders, F.S.A.A., of the firm of Spicer and Pegler. He joined Spicer and Pegler in 1917, having previously been an Inspector of Taxes. In 1927 he went into partnership with Mr. Edward Baldry, F.S.A.A. (now Vice-President of the Society) and practised in the City of London under the firm name of Allen and Baldry, Incorporated Accountants. Over the course of the years the firm amalgamated with several others and the name eventually became Allen, Baldry, Holman and Best. In 1948 Mr. Allen resigned his senior partnership in the firm and had since been devoting much of his time to the affairs of a large South African mining and finance house.

Mr. Allen became a Fellow of the Society in 1930 and a member of the Council in 1934. In 1949, on the death of Mr. J. Paterson Brodie, who was then Vice-President, Mr. Allen was elected to the Vice-Presidency. Later in the same year he became President and held the office until 1951. He always took an especial interest in taxation, on which he was an acknowledged authority. From 1940 to 1945 he was a member of the Council of the Association of British Chambers of Commerce. All who knew Stuart Allen admired his quickness of thought and his ready grasp of the essentials of a problem, especially a complicated problem of taxation. He was a voracious reader. At the funeral, which took place on August 14, the Society was represented by Mr. Edward Baldry, Vice-President, and Mr. I. A. F. Craig, Secretary.

Frederick Arthur Prior was 68 years old. He became an Associate of the Society in 1912, after service with the firm of Leman and Sons, of Nottingham. In 1920 he was admitted to Fellowship of the Society. Soon after the first world war he founded, with Mr. H. F. Palmer, F.C.A., F.S.A.A., the firm of Prior and Palmer, Incorporated Accountants, Nottingham, and remained senior partner until his death. From 1933 to 1956 he was one of the two professional auditors to Nottingham Corporation. For many years he was connected with the Cinematograph Exhibitors' Association, and after holding various offices he became President of the Association for 1946-47. He was for twenty years chairman of the local Board of the General Accident, Fire and Life Assurance Corporation, and he held several other directorships.

Mr. Prior was elected to the Council of the Society of Incorporated Accountants in 1936 and gave diligent service on a number of its committees. From 1918 to 1926 he was Honorary Secretary of the District Society of Nottingham, Derby and Lincoln, from 1926 to 1928 Vice-President, from 1928 to 1935 President. The members of the District Society did him the honour of again making him President on the occasion of the Conference of the Society of Incorporated Accountants in Nottingham in 1939.

The funeral on August 14 was attended by more than 200 friends and business acquaintances. The Society was represented by Sir Richard Yeabsley, President, and the District Society by Mr. N. B. Wallis, its President.

Inter-firm Comparisons

THE BENEFITS to management of exchanging information through trade associations and government Departments are steadily becoming recognised here and abroad. The importance of this means of raising managerial effectiveness was recently emphasised by Professor F. Sewell Bray (Stamp-Martin Professor of Accounting) in his role of *rapporteur* to the recent International Congress of Scientific Organisation in Paris (see ACCOUNTANCY for August, 1957, page 337).

Professor Bray reported that there still exist strong barriers to the use by managers of collated statistics as yardsticks to assess their particular business activities.

Most progress needs to be made in the formulation of methods of measurement and comparability. Here also are perhaps the biggest difficulties. Controversial issues of uniform accounting and costing techniques are involved, and problems of the grouping and coding of businesses and products.

Advances have also to be made in educating managers in the comprehension and use of accounting ratios. The executive should continually analyse the financial position of his concern by seeking informed answers to three questions: (1) What have we done? (2) How have we done compared with our competitors? and (3) What of the future? The first and third questions can be answered by studying the periodical results of the concern and by the intelligent application of sound business principles and management "know-how." But to answer the second question demands inter-firm comparisons, and these comparisons depend upon accounting ratios.

Trade associations, rather than government Departments with some powers of compulsion, should be used to collect information. The co-operation of the majority of concerns in an industry is necessary to provide figures upon which action can logically be taken.

Progress needs to be made in sampling techniques. More co-ordination of statistical agencies is required to relieve the burden on industry and commerce.

The content and presentation of information is open to much improvement, speedier publication would enhance its value, and it should be directed primarily to the industrial recipients of the information, who are managers, not economists or technical specialists. Other recipients include research workers and trade unions. Some means must be found of reconciling the need for

national information with the provision to managers of statistics relating to their particular industries.

Not only governments but also trade associations are concerned in these questions—in particular, they should help their members to appreciate the value of the figures and should see that the collection of statistics does not prejudice members' interests.

The logical progress would be from national comparison to international. If the free trade area develops the goal should be a situation where on an inter-European scale "facts will take the place of guesswork, knowledge will supplant hunches."

Discovery of a Sixteenth Century Accounting Text

A COPY of one of the earliest books on book-keeping in the English language has recently come to light. It is by John Weddington, printed in Antwerp in 1567. Although it was known about, and a copy may have been seen some two hundred years ago, it was not known that an example had survived.

The book has a lengthy title, a somewhat abridged version being:

> A breffe Instruction and manner howe to kepe Merchantes Bokes of Accomptes. After the order of Debitor and Creditor as well for proper accomptes, partable (Factory and other) . . . very needfull to be knowen and used to all men in the feattes of merchandize. Now newly set forthe and practisyd by Johan Weddington, Citizen of London MDLXVII.

It was printed by Peter Van Keerberghen in Antwerp, where the author was resident for at least part of his life. Weddington was a mercer, and was associated in some way with Sir Thomas Gresham, then also, as Queen's agent, a frequent visitor to Antwerp. In a letter to Cecil in 1560, Gresham referred to Weddington, whom he had sent to make some enquiries for him, as a "man of experience"; later he reported the return of "his friend" who had brought him "perfitt intelligence." Elsewhere, Gresham speaks of Weddington as "his servant."

Weddington's activities as merchant would necessarily involve the practice of book-keeping. There is an interesting item in the Antwerp records quoted by E. P. Ramsey in an article in *Studies in the History of Accounting* (edited, Littleton and Yamey, 1956) in which Weddington begged the intervention of the Antwerp magistracy in 1573 to help him recover his fees for more than a hundred days' work on the books of one Baptist van Achelen.

The copy of the *Breffe Instruction* was found in the library in Blair's College, Aberdeen; it is said to be complete and in good condition, except for small defects, not affecting the text, which are at present being repaired. It is hoped that a photographic copy of the work will be placed later in the library of the Institute of Chartered Accountants.

The discovery of the book after so long a time lends support to the hope that one day an original copy of the first English book-keeping text, by Hugh Oldcastle in 1543, will at length be found.

More Pension Schemes—1. The English Institute—

THE SECOND of the two pension schemes of the Institute of Chartered Accountants in England and Wales has now been published. It is the scheme for the staffs of practising members of the Institute. The first scheme, for members who are self-employed or otherwise within the ambit of Section 22 of the Finance Act of 1956, was published two or three months ago and particulars of it were given in our issue of July, 1957 (pages 287-8).

The new scheme is called the Chartered Accountants Employees' Superannuation Scheme abbreviated to *CAESS*—not so euphonically as the first scheme, the Chartered Accountants' Retirement Benefits Scheme, is abbreviated to *CARBS*. It provides contributory retirement benefits, with other "fringe" benefits, for the employees of Institute members (and of firms having as a partner at least one member) practising in the United Kingdom. The Institute is not involved in any guarantee of solvency but has assured a large measure of indirect control: a company wholly-owned by the Institute has been appointed Trustee responsible for the custody and management of the assets, with wide powers of investment. There is to be an actuarial valuation of the funds at least every five years, with consequential modifications of the pension tables if called for.

Permanent employees of participating employers are eligible if over 21. Men over 55 and women over 50 may join only if additional contributions are paid. Special arrangements can be made for the absorption by the scheme of existing pension funds. The normal age of retirement is 65 for men and 60 for women, with adjustment of the pension for earlier or later retirement. Each party pays a basic contribution of 5 per cent. of the salary of each year, but either contribution may be augmented within limits; these contributions are allowable as expenses for tax purposes.

The contributions of each year, which are payable monthly, provide a stated amount of pension at normal retirement age. Thus the pension is the sum of the stated amounts and is not based on final salary, so avoiding the danger that inflation might unbalance the scheme. Examples of the pensions are:

> (1) A member enters the fund at age 22, and remains with one participating employer until the age of 35, when he ceases to contribute. His commencing salary is £350 per annum and he receives annual increments of £25 per annum. A 5 per cent. contribution by himself and his employer during the period will secure a pension commencing at age 65 of £296 per annum.
>
> (2) A member enters the fund at age 25, and remains a contributing member until retirement at 65. His commencing salary is £600 per annum and rises by annual increments of £35 to £1,650 per annum at the age of 55. He receives no increments between the age of 55 and retirement. A 5 per cent. contribution by himself and his employer will secure a pension on retirement of £1,074 per annum.
>
> (3) An employee who joined his firm at the age of 25 and whose salary progression is the same at in example 2 does not become a member until age 40, when his salary is £1,125 per annum. He remains a member until retirement at age 65.
>
> (i) A 5 per cent. contribution by himself and his employer will secure

a pension on retirement of £585.

(ii) If his employer agrees in addition to make a lump sum back-service payment to provide a pension equivalent to that which would have been secured had membership commenced at the age of 35, the pension will be increased to £747 per annum. The additional cost to the employer will be £513.

The fringe benefits are valuable. A member of the fund may secure provision for a spouse or dependant in part replacement of pension; qualifies for death benefit before the commencement of pension and normal retirement age, after commencement of pension and also if unretired after normal retirement age; and receives an adjusted pension on premature retirement though ill-health.

There are arrangements covering transfers between participating employers, transfers to non-participating employers and the entry of members into professional practice.

Together, *CARBS* and *CAESS* provide, the first through assurance offices and the second through a self-governing fund, wide and economical cover for members of the English Institute and their staffs.

—2. The Scottish Institute

THE PLAN of the Institute of Chartered Accountants of Scotland was also published last month. It is a retirement benefits and life assurance plan, intended for members of the Institute in practice and not in practice, in pensionable employment or not, at home or abroad. The cover is obtained through the Standard Life Assurance Company and members availing themselves of the plan will deal direct with the company, without intervention by the Institute.

The part of the plan providing for retirement annuities allows contributions to be made at any time and for any amount not below a modest minimum, within the limits laid down by the Finance Act of 1956. Included within the plan is provision for life assurance and widows' reversionary annuities. One arrangement, therefore, would be for a member to commit himself to regular premiums for life assurance or for a widow's annuity and to set aside in addition such sums as he wishes from time to time on retirement annuity contracts.

A feature of the plan is that contributions for retirement annuities will be accumulated at a rate equal to the gross yield on 2½ per cent. Consols to the nearest ¼ per cent. at the time the contribution is paid, with guaranteed minima of 4 per cent. on premiums paid before August, 1962, 3¾ per cent. from 1962 to 1972 and 3½ per cent. after 1972. The rates of premiums for endowment and whole-life policies are after deduction of a special commission to members of the Institute at the rate of 7½ per cent. of the gross premium.

Fun with Figures

ACCOUNTANTS MUST certainly have more than an average liking for figures and with some accountants the sympathy extends to an interest in the mysteries of number theory. Any accountant who has accumulated a small collection of books on the byways of this absorbing study should certainly add to it Mr.Reichmann's contribution in number esoterics.*

Numbers have a habit of carrying logic to such an unexpected extreme. For instance, one can watch with Mr. Reichmann the ridiculously orderly behaviour of digital roots: the digital root of 23 is 5, that of 11 is 2, and that of their sum, 34, is 7. The reader with restricted mathematical equipment may well feel that there can be no reason for this orderliness, that it is just a happy chance; but our author has no wish to leave us puzzled and is at pains to explain this and his other apparent mysteries. The extraordinary behaviour of 142,857, for instance, a number which can be multiplied and multiplied without ever getting rid of the same six digits in the same order. (Except, of course, when the multiplier is 7 or a multiple of 7: and that, if you follow Mr Reichmann's reasoning carefully, is the reason for all the rest). Magic squares, Pascal's Triangle, pseudo-telepathy, congruences, series, and the expression of all the numbers up to 24 with the use of only four fours (for example $\frac{44-4}{4}$ for 10)—all these and other delights are offered to the discerning, and where necessary are explained. Even if one cannot always follow the explanation the numbers and their habits are still of absorbing interest.

*The Fascination of Numbers. By W. J. Reichmann, A.C.I.S., F.I.A.I., pp. 174. (*Methuen & Co. Ltd.*, price 15*s.* net.)

P.D. Leake Research Fellowship

THE INSTITUTE of Chartered Accountants in England and Wales announces that, as trustee of the P. D. Leake Trust, it is informed that two appointments to P. D. Leake Research Fellowships for 1957/8 have been made. Mr. A. A. Pakenham-Walsh, M.A., F.A.C.C.A., who is a first class honours graduate in economics at the University of Dublin and has for twenty-two years been with Arthur Guinness Son and Co. Ltd., will hold a Fellowship in the University of Oxford. He intends to conduct research into *Management Accounting in the Service of Agriculture*. Mr. L. Wilk, D.F.C., M.A., F.C.A., a first class honours graduate in law at the University of Cambridge who, after qualifying as a Chartered Accountant, practised for a short period, and was then for nine years a chief accountant to W. & T. Avery Ltd., will hold a Fellowship in the University of Birmingham. He intends to conduct research into *Accounting for Inflation*.

It was decided last year (ACCOUNTANCY, November, 1956, page 434) to provide funds from the P. D. Leake Trust for Research Fellowships, the object of which would be to provide university facilities for experienced accountants to carry out research in subjects with which the accountancy profession is directly concerned within the charitable object of the Trust. The Trust was created under the will of the late Percy Dewe Leake (a member of the Institute of Chartered Accountants in England and Wales for more than sixty years) for the benefit and advancement of the sciences of accounting and of political economy, including public finance and taxation. The two appointments now announced are the first awards to be made.

Closing the Bond Laundry

THE COUNCIL OF the London Stock Exchange has told members that

they should not take part in "bond washing," or facilitate it.

By bond-washing one party sells *cum div.* and buys back *ex div.*, making a tax-free capital profit on the transaction, and the other party, who buys *cum div.* and sells *ex div.*, makes a profit (on which he pays tax) out of the refund of the tax deducted from the interest warrant. By the borrowing of stock for the performance of these transactions, and by other technical devices, notional interest payments were created and tax refunds obtained on the notional interest, thus profiting the two parties at the expense of the Inland Revenue (the *cum div.* and *ex div.* prices were, in effect, adjusted so that the profit accruing to the first party was a share in what was obtained from the Revenue).

Transactions of this kind were stopped in short stocks about a year ago, but they had continued in long and medium stocks. It is, however, difficult to ensure that all bond washing for tax avoidance ceases, without also stopping quite legitimate deals.

An Early Accountant-Gardener

WHILE DILIGENTLY cultivating his garden the accountant may perhaps come across a genus of plant named *Duboisia*. If so, he might spare a thought for a much earlier accountant-gardener, Charles Du Bois, after whom the genus was named. Du Bois, who was born in 1653, spent most of his leisure hours in the spacious garden of his house at Mitcham, raising and propagating exotic plants. He formed a large herbarium containing rare specimens brought from India. He wrote little, but was in touch with other enthusiasts and met the great Swedish botanist Linnaeus. The collection of dried plants and flowers left by Du Bois, comprising 13,000 pieces in 74 volumes, passed eventually to Oxford University, which still regards the bequest as a valuable one.

In 1702, Du Bois had succeeded his step-brother as Cashier-General to the East India Company. He deposited £4,000 as security for good conduct, installed himself at East India House, Leadenhall Street, and embarked upon a long career. He prospered and was happy in his work. He became a substantial stockholder. In garden and herbarium he passed many hours of pleasant relaxation from the cares of office.

But at the age of 81, when still active in his post with the company, disaster overwhelmed the accountant-gardener. In the course of a Treasury audit of the books of the East India Company, it was found that there was a deficit of £11,000 in the cash. There was no suggestion of misappropriation on the part of the Cashier-General, but he had certainly been negligent in allowing subordinates to accept "notes" from clients instead of demanding cash payments as they were required to do by the directors' instructions. Du Bois had also turned a blind eye to a making of loans to company officials.

When the disclosure came before the General Court of the stockholders, it caused a sensation. Du Bois presented a memorial admitting his fault but pleading in mitigation his advanced age and long years of faithful service. He reminded stockholders that in the year of the South Sea Bubble crash, he had saved them from heavy losses. Sixty million pounds, he claimed, had passed through his department since he had taken charge of it thirty-two years before. The Court was perturbed at the dereliction but was lenient. It fined Du Bois £300—and later returned the sum to him in the form of a gratuity. Obviously the aged official enjoyed the stockholders' confidence and even, perhaps, their affectionate regard. Nevertheless, it is perhaps kinder to remember him as gardener rather than as accountant.

Shorter Notes

The International Congress

The seventh International Congress of Accountants is being held in Amsterdam from September 9 to 13. There will be about 1,700 present from outside Holland and about 1,200 from that country. We shall publish a report upon the Congress in our next issue.

An International Tax Service

The International Bureau of Fiscal Documentation continues its valuable work in propagating knowledge of taxation and in advising on tax problems of an international kind or relating to other countries. The last report of the Bureau (whose offices are at 196 Herengracht, Amsterdam) shows that a large proportion of the enquiries are received from accountants.

Two C.O.I. Booklets

United Kingdom Financial Institutions is a booklet by the Central Office of Information (H.M. Stationery Office, price 2s. 3d. net) describing the origins and operations of the major financial units—banks, discount houses, Stock Exchange, building societies and so on. It is a comprehensive factual survey in 40 pages. A booklet of 16 pages by the Central Office of Information, entitled *50 Facts about Britain's Economy* (H.M. Stationery Office, 6d. net), sets out, in succinct fashion, facts on population, industry, living standards, exports and other aspects of the economy, and is a useful *aide-mémoire.*

Appointments in Nationalised Electricity

The two new bodies, the Central Electricity Generating Board and the Electricity Council, that are to run the nationalised electricity industry (see ACCOUNTANCY for January, 1957, page 3) are to have as chairmen Sir Christopher Hinton and Sir Henry Self respectively. One of the full-time members of the Board is to be Mr. Ernest Long, secretary of the Central Electricity Authority since 1951 and an Incorporated Accountant. Professor R. S. Edwards, Professor of Economics, with special reference to Industrial Organisation, at London University, and a member of the Association of Certified and Corporate Accountants, becomes a part-time deputy chairman of the Council.

Chartered Accountant University Scholarships in Ontario

The Institute of Chartered Accountants of Ontario is making a novel offer of university scholarships. Two scholarships of $1,000 each will be awarded to students from secondary schools entering an Ontario university for a course in commerce or business administration. There is no obligation on the scholars to seek to become members of the Institute, though it is hoped that some may later do so.

EDITORIAL

Occupation—Clerk

THE announcement by the Association of British Chambers of Commerce of the National Apprenticeship Scheme for Commerce will be welcomed by clerical employees and employers alike. By introducing into office life the practice of apprenticeship the scheme should elevate the status of the clerical worker. It should help to attract suitable school-leavers into commerce.

Office work as a career is at a low ebb of popularity among young people. Schools, especially grammar schools, which in more normal times would be the main source of supply to the commercial labour market, are largely apathetic. There appear to be two predominating reasons for the lack of interest in an office career. The first is purely financial. The great improvement in the relative financial position of the manual and semi-manual worker since the war has provided competition which the clerical employer has been unable to withstand, though office wages have greatly advanced. The second factor is that of prestige. The force of this factor may be seen in such facts as the inability of an employer to fill a junior post commanding a moderate wage unless it is advertised under some such high-falutin title as "assistant office manager." To be merely a clerk in an office is no longer a satisfying occupation to the many who have been blinded by the modern practice of decorating honourable vocations with tinselled names. The professional cook is a domestic scientist and many a humble occupation in laboratory, school or hospital is now dignified with an "... ist" as misleading as the equally fashionable but more abstract " . . . isms" of the times.

The apprenticeship scheme, good though it is, hardly goes deep enough. If clerical training continues to be limited to general instruction in book-keeping or shorthand-typing at school or during apprenticeship the earnings of the office worker are unlikely to advance sufficiently or his prestige to be enough enhanced. The increasing use of office machinery offers an opportunity for improvement by the removal of drudgery, but full advantage of this new element will not be taken unless the education authorities offer more facilities for the study of mechanical operations.

If the basic education were right, the more distant prospect for the office worker would seem to be much brighter than recent experience has suggested, for increased automation will cause a drift of control and responsibility from the factory floor to the instrument-laden desk and the computer consol. The partition between works and office will be removed. As an example, in the *Powers-Samas* "Auto-Route" punched cards actuate the release mechanism on a conveyor rail, causing work to be deposited at predetermined work-positions. The card released with each delivery is later utilised for production control and costing. Again, multiple-purpose accounting systems are emerging, systems which combine book-keeping—previously segregated and pure—with stock control, budgetary control, cost accounts and production control generally. So complex are the methods now being evolved to manage the modern commercial and manufacturing undertakings that functions of Organisation and Methods units already require to be classified and crystallised into separate subjects. The time has come when there must be produced specialists in the care, operation, interpretation and application of the new family of office machines growing up around us—and specialists who acquire their specialism within a few years of leaving school. The lack of education in this field is underlined by the fact that nine out of ten managements still turn to office equipment salesmen for information on the relative capabilities of machines for new system installations. An office, as a team of trained people, should contain within itself adequate knowledge of the tools of its trade. Ask a contractor's plant operator for an opinion on the latest excavator and hear the enthusiastic comments!

More standardisation in offices would also aid the recruitment and the advancement of clerical workers. The speeding of data processing is meeting a barrier—not a sound or heat barrier, but a no-standards barrier. In a really efficient concern, carefully designed forms flow freely and in the fairly near future will be electronically read or printed, if they are not already. The barrier is met at the point of contact with outside organisations using different forms of invoice, advice or statement. Incoming data have consequently to be transposed to local media by means of a manual keyboard operation, which is not only the weakest link in the process chain, but also the slowest. A British standard series of commercial forms is badly needed, and with it standard methods. The big users of punched cards and tape seem ready to show the way.

When commercial practice has been standardised from the blackboard to the Boardroom, and when clerical work has become much more specialised, young people will turn ambitiously to offices for their careers. The introduction of a system of apprenticeship will hardly suffice until a range of clerical specialisms has been established. Industry has sorted its functions into trades which its employees follow freely, improving themselves and moving from employer to employer with the minimum of disruption. Commerce must do the same, employing operatives trained to be worth good incomes by reason of their skills. A mere handyman in industry has no career and likewise in commerce he has only his present occupation—clerk.

"What profits can be expected in future?" "What should funds in this business yield?" Valuing a business means answering these two questions. Our contributor discusses the problems encountered in seeking the answers to the questions.

Valuing a Business

By M. R. Read, A.C.A.

THE PRACTISING ACCOUNTANT is sometimes called upon to value a business. Or sometimes he is required to value shares carrying a controlling interest, a process that necessitates valuing the business as a whole. (The valuation of a minority interest gives rise to slightly different considerations not dealt with in this article.)

Basically, the only logical way to value a business is to capitalise the expected future profits, at what is considered to be an equitable rate, in order to arrive at its total value inclusive of goodwill. In common use are methods involving the taking of the profits of a specified number of years to represent goodwill, but it is difficult to understand the logic of these systems. Two recent articles by Mr. H. C. Edey in this journal (January, 1957, pages 15–18, and February, 1957, pages 52–54) showed conclusively that the method of capitalising expected future profits is the logical and best method of valuation, and that goodwill should not be taken as the profits of a number of years by the "super-profit" method.

Two questions have to be answered

If a business is valued on a capitalisation of profits basis, one is not faced with completely theoretical questions such as "how many years' profits should be taken for goodwill?" but basically one has, instead, to answer two questions only. These questions are:

1. What profits can be expected from this business in the future? and,
2. What is a fair yield to be expected from money invested in this concern?

It is not suggested that either of these questions can be answered with exactness and finality but, as regards the first, one can look to the past and attempt to forsee the future, and, as regards the second, one can look to the commercial world to give a guide on what the answer should be. Then, by dividing the estimated future profits by what is considered to be a fair yield one arrives at a figure representing the total value of the business.

Estimating future profits

One's first task therefore is to try to estimate the profits which may be expected in the future. "Future" is, of course, the bugbear and one can only look to past profits, taking an average of the five or six preceding years, and to known trends, in an attempt to foretell the future. One must, however, try to ensure that the figures upon which the estimate of the future is based are themselves accurate and, accordingly, the accounts of the years that are being averaged should be examined to ascertain whether the figures are correct. Apart from the question of the fraudulent manipulation of accounts, which must be considered but is not within the scope of this article, the following points merit consideration:

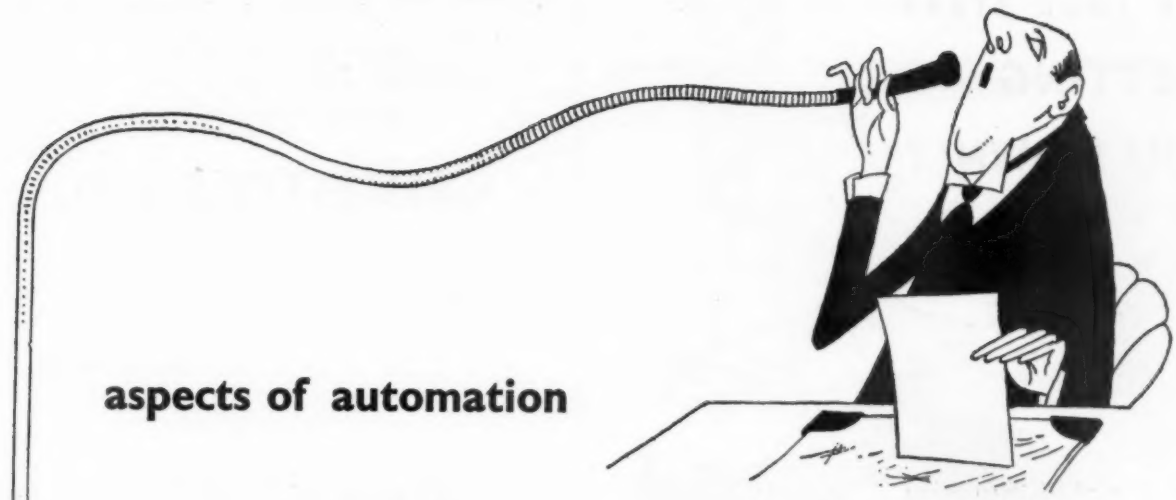
(1) The basis of past provisions for depreciation should be considered and the assets themselves examined, in order to determine whether an equitable charge has been made in previous years. If such a charge has not been made, the accounts should be adjusted to show what is considered to be a fair charge.

(2) The state of repair of buildings and other assets should be considered, and, if it is thought that they are unnecessarily dilapidated or that repairs have been neglected in the past, an adequate charge for repairs should be substituted for the figures actually appearing in the accounts. The converse will apply if improvements have not been capitalised but have been written off to revenue.

(3) Non-recurring profits and losses should normally be eliminated.

(4) If the business owns investments or has a bank deposit account and if these items are not an essential part of the working capital, then it is suggested that the resulting income be eliminated from the profits to be capitalised and the assets themselves valued separately. This treatment can have a material effect, as the following example will show.

Assume that a business has a deposit account at its bank of £10,000, apart from a current account which is quite sufficient for its everyday needs. The deposit account yields at four per cent., ignoring tax, yearly interest of £400. Assume further it is considered that a fair yield for money invested in the company is eight per cent. If the interest of £400 is not eliminated but is capitalised at eight per cent. together with the rest of the profits then the bank account will be "valued" at



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£400$\times\frac{100}{8}$ or £5,000, whereas its true value is obviously £10,000.

It is emphasised that this argument should not be extended to cover assets used in the day-to-day running of the business, as these cannot be separated from the business as a whole.

(5) In some businesses directors' remuneration is paid at more than an economic rate (usually in order to obtain maximum earned income relief) while in others the opposite is true. In such cases what is considered to be an equitable charge should be substituted for remuneration appearing in the accounts.

(6) As past profits are to be used as an indication of what profits can be expected in the future it may be considered advisable, if the amounts involved are large, to make adjustments in the profits of previous years to counteract inflation. The year of valuation should be taken as standard and the profits of previous years adjusted by reference to the relevant price indices.

Averaging

Having adjusted in the manner suggested the profits of the five or six years immediately preceding the valuation the next step is to arrive at their average. If the profit of any year is unusually high or low as a result of exceptional trading circumstances it is advisable to exclude it from the computation. The fact that such a fluctuation can arise should, however, be reflected in the rate which is thought to be an equitable yield on money invested in the business.

It is also advisable to use some form of "weighted" average rather than a straightforward calculation. The following example illustrates this point.

Assume that there are two businesses in similar trades and locations. For the five preceding years the profits of the first have been £9,000, £7,000, £5,000, £3,000, and £1,000; those of the second have been £1,000, £3,000, £5,000, £7,000 and £9,000. If a simple average is used both businesses will show average profits over the five years of £5,000, and will tend to be valued at the same figure, though this result is evidently incorrect. Some method must therefore be found whereby greater importance is attached to the profits of the more recent years. The use of a weighted average will have this effect, but the relative importance attached to profits of later years as compared with earlier years will depend on the "weights" (or multipliers) chosen and the choice is largely a matter of personal opinion. The example could, for instance, proceed as follows:

	First Business		*Second Business*	
	£	£	£	£
Year 1	9,000×1 =	9,000	1,000×1 =	1,000
2	7,000×2 =	14,000	3,000×2 =	6,000
3	5,000×3 =	15,000	5,000×3 =	15,000
4	3,000×4 =	12,000	7,000×4 =	28,000
5	1,000×5 =	5,000	9,000×5 =	45,000
	15	55,000	15	95,000
	55,000÷15 =	3,667	95,000÷15 =	6,333

Thus, as is equitable, the second business will tend to be valued at a greater figure than the first.

Deductions from the average

From the average profit calculated in this way there should now be deducted:

(*a*) Income tax at the standard rate;

(*b*) Profits tax (if the business is a company) at the basic rate of three per cent. or such smaller amount as is applicable having regard to abatement;

(*c*) A reasonable transfer to reserve having regard to normal business practice. Forty or forty-five per cent. of the remaining balance might be considered reasonable.

The first two deductions should be made even though there is an agreed tax loss, which, it is suggested, should be valued in the manner dealt with later.

Calculation of the profit available for dividend

One may now assume that the balance of profit after these deductions is to be wholly utilised in the payment of a dividend and the profits tax thereon and the problem is to allocate this notional balance as between profits tax and net dividend. Profits tax, at 27 per cent. or such lower rate as is relevant having regard to abatement, is calculated by reference to the gross and not the net figure of dividend, and accordingly it will often be necessary to resort to algebra in order to ascertain the correct allocation. In a simple example where abatement does not apply and there is no franked investment income the formula would be:

$$\frac{11.5}{20}x+\frac{27}{100}x=\text{Total balance available,}$$

where x is the gross dividend, $\frac{11.5}{20}x$ being the net and $\frac{27}{100}x$ the distribution charge at the current rates of tax.

In this way the amount available for payment as net dividend in the future may be estimated.

Capitalisation of expected profit at a fair yield

The amount notionally appropriated in this way as the estimated future net dividend should now be capitalised at what is considered to be an equitable rate in order to arrive at the total value of the business exclusive of investments or other assets valued separately.

Thus, if the estimated future net dividend is £10,000 and an equitable yield is considered to be 5 per cent. net the total value of the business will be £10,000$\times\frac{100}{5}$ or £200,000.

Estimation of "fair" yield

The decision on what is an equitable yield for capitalisation is not wholly a matter of personal opinion. A guide can be obtained by referring to the yields obtainable from quoted shares in businesses of the type concerned, adjustment being made for the various factors involved. Thus a small concern will normally be expected to give a higher yield than a large concern. Other factors to be

considered are whether the company has adequate security of tenure of its premises, sufficient working capital, satisfied employees, a well-filled order book, and a capital well covered by assets.

Goodwill

By the method discussed in this article of valuing a concern no separate account is taken of goodwill. It is not ignored but is treated as part of the business as a whole. Goodwill can have no value except as part of a going concern: it is the element converting a set of assets into a working business and should not be regarded as a separate entity.

A tax loss

A further question that may arise is the valuation of an agreed tax loss. The fact that the concern has suffered losses in the past will undoubtedly have adversely affected its valuation and so it may be argued that some value be attached to the probable future tax savings resulting from the past losses. One method that appears logical is to value the loss at current rates of tax by reference to the assumptions that have already been made and to discount this valuation for the time it is thought will be taken to absorb the loss out of future profits. Thus, if the agreed loss is £25,000 and the business has been valued on the basis of estimated annual future profits of £5,000, the estimated saving will be tax on £5,000 per annum for five years. The valuation of £25,000 at the standard rate of tax can then be discounted by reference to interest on the sum that would have to be invested in order to produce the tax saved on the various dates it would otherwise have become due. The same treatment can be applied with regard to profits tax. Naturally, these considerations will not apply in circumstances in which it is not possible to carry tax losses forward.

Accelerated depreciation—what is its value? Those who advocate it often do so for mistaken reasons. Inflation and high taxation, which are masked by it, are its real *raison d'être*. A requirement that depreciation as allowed for tax purposes should be provided in the accounts need hold no dangers.

Depreciation with the Throttle Open

By C. D. Hellyar, F.C.A.

A SCHOLARLY PAPER was recently given in this country by Professor Sidney Davidson of Johns Hopkins University under the title *Depreciation, Income Taxes and Growth.* For the benefit of those who did not hear the paper, it is reproduced in the current issue of *Accounting Research* (Vol. 8, No. 3, July, 1957). Professor Davidson's main aim is to give a precise assessment of the value of the various methods of accelerated depreciation in force in different countries for taxation purposes.

His conclusions may be quoted:

> Tax laws with regard to depreciation have been gradually evolving for over a century. In recent years there has been a substantial shift to accelerated depreciation methods in order to promote more rapid economic growth. A plausible case can be made for the view that accelerated depreciation for tax purposes encourages investment by increasing profitability and lessening risk as well as by permitting growing firms to finance more of their investment internally. . . . Such tax provisions may pose problems for accountants. Where requirements are found that tax and book depreciation must be the same the effect almost inevitably is to weaken the accountant's independence and to thwart realistic income determination. Where book and tax depreciation differ the accountant is faced by a difficult judgmental problem of inter-period allocation of income taxes.

These views may be compared with those expressed rather summarily by Mr. Roy Harrod in *The Director* of June, 1957. Mr. Harrod objects to the investment allowances still allowed in this country in respect of ships, scientific research and expenditure on the promotion of fuel economy; he complains that they constitute a concealed subsidy. He advocates instead that optional write-offs should be permitted to the taxpayer without any limitation otherwise than that of total net cost; he makes the proviso that a concern benefiting from the allowance should be compelled to write-off similar sums in its accounts. In his view this procedure, while not likely to affect the practice of most taxpayers, would appeal to those that "operate in fields of quickly moving

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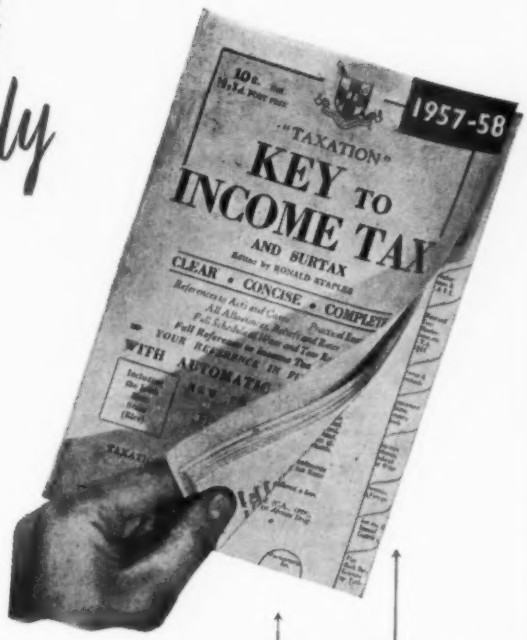

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technology." These he adds are the very firms and kinds of investment that we particularly wish to encourage.

It is elementary knowledge that in modern conditions the physical life of plant and machinery is often not attained. Long before it is worn out it becomes obsolete and is scrapped. Accountants might point out that, desirable as it is to take account of obsolescence in assessing the life of an asset, it is still more necessary for a business to earn sufficient profit to cover it. In the last analysis it is in the ability of the business to pass on its costs in its selling price that the core of the problem lies.

What, then, is the real value of accelerated depreciation?

There are different ways of answering this question. One of them is to say, as Mr. Harrod says, that modern technical changes often require a swift writing-off of assets in order to provide for obsolescence. If such plant is peculiarly liable to obsolescence, it ought, however, to be possible to demonstrate this and get an effective allowance for tax purposes over the anticipated economic life of the unit. The British Revenue authorities are doubtless rather backward in this respect as compared with their counterparts in the United States (though they might justly point out that full allowance is given when the asset goes out of use). Moreover, this principle does not require governments to grant heavy initial allowances to *every* taxpayer regardless of the nature of the plant.

Accelerated depreciation is also presented as a financial stimulus to new investment and as providing extra funds just when they are needed. Such funds have sometimes been called "interest free loans." If an enterprise is only marginally profitable, however, why should a financial stimulus be given? The real reason for these allowances surely lies in the excessive level of business taxation. While it may be that no one has yet conclusively proved that industrial assets are being "eroded" as a result of high taxation, nevertheless, a general feeling persists that damage is being done by it. Both investment and initial allowances in this country are, it may be suggested, the product of an uneasy conscience on this matter. It has been felt by successive governments that expansion, at least, is being checked.

Admittedly, it is not merely high taxation that is the trouble, but the combination of high taxation and inflation. The history of accelerated depreciation in this and other countries shows that it has been instituted almost invariably in response to pleas by industry for an allowance to cover the increased cost of replacement due to inflation.

The elements of this situation are now distressingly familiar. Though there is a lull in the controversy regarding accounting techniques designed to reflect the impact of monetary inflation upon business profits, the problem remains. Indeed, it becomes more acute with the steady deterioration of purchasing power.

One of the most striking examples may be seen in the shipping industry, in which the rise in costs in the last ten years has been fantastic; while a tanker is building nowadays its estimated cost may increase by one half. Ships were indeed the only items that were singled out in the recent Finance Act as the subject of increased investment allowances. These allowances are now 40 per cent. instead of 20 per cent. but how feeble becomes the pretext that this allowance is designed to "stimulate investment." It is evidently only a quite inadequate recognition of the greatly increased cost of replacing a ship.

It may be noted that investment allowances are not, however, strictly an example of accelerated depreciation, since they are granted over and above the normal depreciation based on cost. In this country accelerated depreciation is represented by the initial allowance.

The effect of accelerated depreciation in any form is that, so long as a business is steadily replacing or expanding its plant, the evil effects of inflation on profits (and on liquidity) are *masked.* The effect of accelerated depreciation is to diminish taxable profits now at the expense of increased taxable profits in future when replacement or expansion ceases. Does this not hold dangerous possibilities for the future?

One most significant factor upon which adequate statistics are lacking is how far obsolete plant is still in use in this country. Some very fine new plants have been constructed since the end of the war but how many of the old ones have been pulled down? Dr. Barna gave a valuable paper to the Royal Statistical Society in November, 1956, on "The Replacement Cost of Fixed Assets in British Manufacturing Industry in 1955" (reproduced in the *Journal of the Royal Statistical Society*, Vol. 120, Part I, 1957), in which, using population statistics as an analogy, he said: "Information on mortality rates and on life tables of assets is still gravely lacking: the next step in this field must be one towards a study of age distribution, the decline of efficiency with age and the retirement from useful life of assets in different industries."

As regards the compulsory utilisation of tax depreciation in the financial accounts, one wonders whether this is quite such a burning question as Messrs. Davidson and Harrod would lead us to believe. But one can accept Mr. Harrod's basic contention, for it seems not unreasonable for a government to ensure that depreciation upon which it has granted tax allowances should be provided in the accounts of the business.

Mr. Davidson is concerned with the distortion of profits as disclosed in published accounts as a result of this practice and instances what has occurred in Sweden as proof. But surely this abuse need not occur. There is nothing to prevent published accounts from reflecting the depreciation that management properly considers to be chargeable in arriving at net profit. The net profit can then be carried down and the excess depreciation shown as a deduction "below the line." Mr. Davidson might perhaps consider this an unsatisfactory expedient; it is in effect the method proposed by the Institute of Chartered Accountants in its famous Recommendation XV. Admittedly in that Recommendation the problem was of a business putting aside sums annually out of profit in order to maintain the real value of its capital in inflationary conditions. The Institute was not willing to admit that "economic profit" should be accepted for

accounting purposes as equivalent to net profit.

Although the Institute has been made the scapegoat in this controversy by businessmen, economists and others, one thing needs to be said. Until the business community can be honest with itself in this matter and companies consistently present accounts providing for full replacement values of fixed assets and stock-in-trade, no accounting devices can change the situation. A revolution might be achieved if it became the regular practice of shareholders and financial commentators to demand that managements disclose the sums required out of annual profit to compensate for the effects of inflation upon their capital. Perhaps some dividends might be reduced in consequence but it would be worth it.

Accountant at Large

The Blue Book

IN THE VULGAR eye accountants are men concerned with mundane affairs rather than the eternal verities, with the nimble ninepence rather than aesthetic values. The accountant will find his labour largely wasted who seeks to convey to the uninitiated the truth he sees in his figures, the beauty to be discerned in the final balance. Accountants are immovably fixed in popular esteem as unromantics, tied to their desks, lacking the spirit of adventure and containing in their number the minimum of far-wandering men.

We may all be conscious of the element of truth in the general accusation, while at the same time realising its general falsity. As to the lack of physical, geographical, enterprise we may, on the appearance of the Society's new *List of Members*, yet again look, as we have most of us looked often before, at the topographical section. The first four places listed are Aba, Abadan, Aberdare and Aberdeen; the last four Ystrad Mynach, Zaria, Zuider Paarl and Zurich. We may or may not, according to our own birthplaces, regard Wales or Scotland as a foreign land; but it is interesting, at the least, that *alpha* and *omega* should both be foreign parts, and that England is thickly protected by an oversea covering. And the List as a whole reinforces the argument of these A's and Z's. We have members scattered far and wide over the globe, bringing to a variety of dark and other places the truth of good accounting practice and balancing the books from the icy mountains to the coral strands. We may hope that in their particular environments our members for the most part perhaps even mitigate the general vileness of man.

The present edition of the List has, it need hardly be said, rather more than the normal interest. For, in the light of Integration (which surely deserves its capital, its apocalyptic capital letter), here is very probably the last of a long and distinguished series, and perhaps even the last publication of the Society. For the moment we may properly look backward rather than forward, a little sentimentally perhaps, but in pride rather than sentiment merely. We may recall the first book in the series, appearing in 1888, a slim volume of 76 pages in which were named precisely 400 members, including 11 in Australia and two in India. The Society had then been incorporated only something over two years, and the shape of things to come can hardly have been discernible even to the more farsighted of the 400; for who then could have foreseen that the world would so change that within a mere three score years and ten the membership in Salisbury, Rhodesia, would occupy three pages and the parent Salisbury, England, would be left with five entries? (In 1888 it would doubtless have been appropriate to murmur *Tempora mutantur* . . .; now the tag is either a cliché or an incomprehensibility.)

The record shows that there have been 59 issues of the List, together with a 1940 supplement to the 1939 list. In the first world war 1917/18 and 1918/19 saw only abbreviated editions; in and after the second there was no List between 1941 and 1948, and since then it has been the practice to publish the List every other year. Good accountants will be unable to resist reconciling this outline against the total; they need to be told further that the yearbook appeared in 1950 *and* 1951.

Any of the various recipients, or the people who go to them to consult their reference books, may turn, as we again do, in idle interest to the topographical list. In this portion of the book there are in plenty the fortuitous juxtapositions that prick the imagination of browsers through any gazetteer: Kingston upon Thames, at the head of one page, is next to King William's Town; marshalled at the foot of the opposite page are Kobe, Kroonstad and Kuala Lumpur; Par is cheek by jowl with Paris and Detroit with Devizes. There are the other points that gazetteer browsers are used to look for. London, as one would expect of the great wen, spreads its ungainly shadow all the way from page 568 to page 675. New Westminster is there; so, more heavily represented, is New York, and examples multiply for as long as one cares to look.

And the moral of the List is implicit in these oddities, as well as in the size of the book—858 pages now against the first 76, 11,335 members now against the early 400. The Society has grown into a great and far-flung body,

doing good work (if we feel as we should, though not too solemnly, that accountancy is a Good Thing). Its days as a separate entity are very probably numbered, but we may enter into our new association confident that our contribution to it is substantial, as the evidence of the List shows, as well as sound. Many members will keep this Blue Book by them with affection for long after it has ceased to be of practical value.

Bankruptcy and Deeds of Arrangement

In October, 1955, the President of the Board of Trade appointed a Committee (called the Committee on Bankruptcy Law and Deeds of Arrangement Law Amendment) under the chairmanship of His Honour Judge Blagden, with the following terms of reference:

> **To consider and report what amendments are desirable in (1) the Bankruptcy Acts, 1914 and 1926, more particularly in regard to the provisions relating to the discharge of bankrupts; and (2) the Deeds of Arrangement Act, 1914.**

The report of the Committee was published last month by H.M. Stationery Office (Command 221, price 4s. 6d. net, 4s. 9d. by post). We comment upon the report in a Professional Note on page 374 and we give below a summary of the principal recommendations. The numbers in brackets refer to paragraphs of the report.

BANKRUPTCY

Petitions. Where the act of bankruptcy cited is the execution of a deed of assignment, the normal period of three months' availability to support the petition should be reduced to one month (16-18).

Public Examination. The Court may dispense with public examination in certain cases, and an order dispensing with the examination should have the same effect as an order concluding it (23-24).

Trustees. The Board of Trade should prescribe professional qualifications requisite in persons to be appointed as trustees (30-32). A creditor should not be appointed as trustee (33-34). The remuneration of a trustee should be continued as a percentage on assets realised plus a percentage on the amount paid to preferential creditors and by way of dividend (158-162). A trustee should be able to resign by giving 14 days' notice to the Committee of Inspection and the Board of Trade (168-169).

Committee of Inspection. A creditor should be able to revoke the appointment of his representative on the Committee of Inspection and appoint a substitute (39-41). A postal vote by a majority of the committee should be made valid (43).

Proxies. Proxies should be given to any person not a minor, but the holder of a general proxy should not be eligible to act as member of a Committee of Inspection unless he is in the regular employ of the creditor (220-221).

Private Examinations under Section 25. An examinee may be required to file an affidavit exhibiting an account between himself and the bankrupt for a period up to three years. The Court may order a payment to the trustee or delivery up of goods as a result of the examination and order the examinee to pay costs (50-52).

Discharge. Basically, there should be an automatic discharge of every bankrupt, without application by him, two years after the date of the order concluding the public examination. This should apply only where no caveat is entered by the Court.

It is recommended that caveats be entered by the Court on application by the Official Receiver or the trustee and in certain circumstances by a creditor.

If a caveat is entered the bankrupt will remain undischarged until he makes an application for discharge and it is granted after hearing by the Court.

Where no caveat is entered a bankrupt may still apply for a discharge application to be heard in hope of a grant earlier than after the two years.

A caveat when entered should be published in the *London Gazette* and a record kept where search could be made by the public.

Existing undischarged bankrupts at the date of coming into force of the new Act should also receive an automatic discharge two years thereafter. Application for caveat would also apply in their cases.

Where a caveat is entered against a bankrupt he should be required to report in writing to the Official Receiver every six months the amount of his earnings and acquisitions and to attend on the Official Receiver when requested to do so (53-78).

Set-off. Set-off should not be allowed between a debit or credit arising from a statutory obligation (e.g. income tax) and a credit or debit resulting from a contractual obligation (e.g. with a trading Ministry or Department) (83-85).

Preferential Creditors. One week's unpaid wages not exceeding £25 in respect of services rendered to the bankrupt during the week before the

receiving order should be paid pre-preferentially.

Present preferential payments should follow, but assessed taxes be limited to either of the two fiscal years immediately preceding the date of the receiving order at the choice of the Crown.

Rates should be reduced to a six months' preferential period, instead of twelve months as at present.

Money advanced to pay wages should not be preferential as in the case of companies (86-97).

Landlords/Execution Creditors. Landlords and/or execution creditors should have the right to retain the proceeds of the distress and/or execution 21 days after seizure by the Sheriff, provided notice of a bankruptcy petition has not in the meantime been served (98-101).

The recommendations do not make clear whether the landlord will still be expected to pay out the preferential creditors.

Assets not passing to Trustee. There should not pass to the trustee: (1) property held by the bankrupt on trust (including money on credit of client's account of a bankrupt solicitor); (2) the necessary tools of the bankrupt's trade (to a value not exceeding £50) and the necessary wearing apparel, bedding *and furniture* of himself, his wife and children; (3) a tax refund attributable to the income of the bankrupt's wife (102-105).

After-acquired Property. Unless the trustee claims it, after-acquired property should not vest in him.

Where a trustee claims after-acquired property it should be subject to a first charge for payment of the bankrupt's reasonable current necessaries since the date of the receiving order, including, where the bankrupt dies, funeral expenses (106-109).

The bankrupt should be required to disclose to the trustee all property acquired by him after the date of the receiving order and before discharge (46-47).

Second Bankruptcy. Where a bankrupt still undischarged from an earlier bankruptcy again becomes bankrupt, the trustee in the earlier bankruptcy should not be able to benefit in the second bankruptcy until the creditors in the second bankruptcy have been paid in full.

The trustee in the earlier bankruptcy should hand over to the trustee in the second all undistributed after-acquired property (111-115).

Fraudulent Preference. Where a debtor's intention was to prefer a guarantor or surety, the trustee should proceed against the guarantor or surety direct and not against the principal creditor except to any extent to which the latter has benefited.

In the trial of any motion relating to an alleged fraudulent preference the notes of the bankrupt's public examination should be admitted as evidence (116-125).

Reputed Ownership. The "reputed ownership" clause should be repealed. The prevalence of goods acquired on hire purchase has rendered the clause obsolete (110).

Protected Transactions. Where publication of the making of a receiving order is postponed by the Court, all transactions with the bankrupt should be protected against the trustee if made without notice of the receiving order and before the receiving order is gazetted (126-127). (At present banks are liable to make good to the trustee the amount of any cheques honoured after the date of the Receiving Order and before its publication.)

Disclaimer. Disclaimer of property should not justify the causing of avoidable suffering to any domestic or captive animal (e.g. animals in a pet shop (134-136).

Employment of Solicitor, etc. The trustee should have power to employ a solicitor, auctioneer, etc., to sell property without needing the sanction of the Committee of Inspection for such employment (137-140).

Taxation of Costs. Taxation of costs should not be required where the bill does not exceed £21 in any one bankruptcy or where the Official Receiver is trustee (163-166).

Summary Cases. At present summary administration applies to cases where the assets do not exceed £300. It is recommended that the limit should be raised to £1,000 (183-184).

Deceased Insolvent with no Legal Personal Representative. In the case of a deceased insolvent where no legal personal representative can be traced, a creditor should be able to take out letters of administration after applying to the Court for directions. At present there is no legal machinery available in this connection.

No right of retainer should be granted to the administrant creditor in priority to the claims of the general body of creditors (185-191).

DEEDS OF ARRANGEMENT

Instruments to be Registered. It is recommended that only deeds of assignment which would constitute an act of bankruptcy need be registered, but the wording apparently also contemplates the registration of deeds of composition if they "provide for the payment to a trustee of any moneys of a debtor" (237-238).

Deeds of inspectorship, letters of licence and similar agreements should no longer be required to be registered.

Relation to Bankruptcy Law. As a corollary to the reduction to one month of the availability of a deed of assignment as an act of bankruptcy (pars. 16-18), there is a recommendation that a new Section be inserted in the Act to provide that, where a petition is presented within three months after the date of execution of a deed and it appears to the Court that the petition has for its object the extortion of an advantage over the other creditors or that a receiving order is not in the interest of or is against the wishes of the general body of creditors, the Court shall dismiss the petition (274-276).

Bankers Protected. A banker opening an account for a trustee under a deed of arrangement should be protected against claims by a trustee in any ensuing bankruptcy (274-276).

Power to Make Debtor Bankrupt. Should it appear that a debtor whose affairs are the subject matter of a deed of arrangement is found to be guilty of misconduct, the trustee should, if the creditors by special resolution so determine, petition the Court for a receiving order and the trustee under the deed may be continued as trustee in the bankruptcy (274-276).

Trustee's Remuneration. The trustee under a deed of arrangement should be entitled to his reasonable remuneration in addition to other allowable expenses where bankruptcy ensues (270).

Time for Registration. The time for registration of a deed should be extended to 14 clear days after execution (at present seven days) (239-240).

Taxation

Overseas Trade Corporations—III*

Trading and Investment Income

THE TRADING INCOME of an Overseas Trade Corporation (O.T.C.) must be computed separately from its investment income. The trading income for any period is the actual trading profits (computed on ordinary principles of accountancy recognised in the United Kingdom) for that period. No deduction for any foreign taxes similar to income tax and profits tax can be made in computing those profits. The investment income for any period is the aggregate of (*a*) any investment income arising to the O.T.C. before deduction of any direct foreign tax and without any addition for indirect foreign tax and (*b*) the net annual value of properties chargeable under Schedule A. Interest (whether annual or short) and other annual payments paid by an O.T.C. are to be deducted initially from the investment income, only the excess being set-off against trading income, but exempt trading income cannot be included as income brought into charge for the purposes of Section 169, Income Tax Act, 1952.

Illustration

X Ltd. during a particular period had a trading profit of £40,000, paid company tax in France of a sterling equivalent of £16,500, had an investment income of £5,100 after deduction of direct foreign tax of £900, and paid annual interest of £7,200. X Ltd.'s trading and investment income for the year would be:

	Trading		*Investment*
	£		£
Trading profit ..	40,000	Income before direct foreign tax	6,000
Less excess interest	1,200	Annual interest paid	6,000
	38,800		Nil

If the interest were payable in the United Kingdom, a Section 170 assessment would apparently arise on the £1,200. It is interesting to see that profits are to be computed on the actual basis; is this an indication that the preceding year basis for Schedule D will be amended soon, as far as companies are concerned?

Dividends

A dividend is to be related in the first instance to the period for which it is expressed to be paid, providing it is not declared more than twelve months after the end of that period. If the dividend is not expressed to be payable for a particular period, it will be related in the first instance to the period ending immediately before the date of the distribution. Section 35 (5), Finance Act, 1947, is to apply for the purpose of ascertaining the date of the dividend. The Section provides:

> The term "dividend" includes an interim dividend. A dividend is treated as declared:
> (*a*) if declared in general meeting, on the date of declaration;
> (*b*) in any other case, when it is paid, save that:
> (i) if a dividend declared at a general meeting is in accordance with a directors' recommendation publicly announced at an earlier date, that date must be taken; and
> (ii) if a dividend is paid as a result of a decision of the directors and they publicly announce it, the date of announcement may be taken if the company so elects.

Finally, if the dividend, grossed-up at the standard rate of income tax for the year of assessment in which the date of distribution falls, exceeds the income of the period to which it is in the first instance related, the excess is to be treated as paid out of the undistributed income of previous periods on the "last-in, first-out" basis.

Illustration

A company pays a dividend of 11½ per cent. free of tax for the year ended June 30, 1961, on an issued capital of £100,000. The profits for that period were £7,000. The position for previous years was:

	Profits	*Gross distribution*
	£	£
Year to June 30, 1960	6,000	5,000
do. 1959	15,000	5,000
do. 1958	18,000	5,000

Assuming income tax at 8s. 6d. in the £, the dividend for 1961 amounts to £20,000. It will be deemed to have been paid out of the profits as follows:

	£
1961	7,000
1960	1,000
1959	10,000
1958	2,000

If the income of the period to which the dividend is finally related consists only partly of exempt trading income, the dividend will be regarded as paid proportionately out of exempt trading income and other income.

Other Distributions

In the foregoing paragraphs only dividends have been considered. However, these provisions will apply to any "relevant distribution." This term means:

(*a*) any dividend paid on shares of the company, or

(*b*) a grant or loan made by the company to an associated person (i.e. (i) a person who has control of the company or (ii) if the "person" is a company or partner-

* *The first article appeared in our issue for July, 1957, pages 303–4, and the second in the issue for August, 1957, pages 347–8.*

ship, it either controls or is controlled by the company or a third person has control over both of them) or, if the company is director-controlled, a grant or loan made by the company to or for the benefit of any director or member.

(*c*) a distribution which the company is deemed to make to its members as a result of capitalising profits and then reducing capital or vice versa.

(*d*) a distribution made by the liquidator of a company which is not treated as a distribution of capital (i.e. the paid up capital plus share premium account but excluding profits capitalised since April 9, 1957).

Charge to Income Tax

If the dividend is regarded as being paid out of exempt trading income, an assessment under Case VI, Schedule D, for the year of assessment in which the dividend becomes due, will be made on the amount paid grossed-up at the standard rate of income tax for that year. The company may claim double taxation relief if appropriate (Section 28, Finance Act, 1957). The tax is due one month after the assessment is signed and allowed. As with all United Kingdom companies, the O.T.C. will pay the gross dividend less income tax to its shareholders. Any non-resident shareholder will be entitled to claim repayment of the tax deducted (subject to the effect of double taxation relief). To avoid evasion of tax, a proviso has been included preventing a non-resident shareholder who is a subsidiary company of a principal company resident in the United Kingdom from claiming such repayment. An O.T.C. can reclaim tax deducted from any dividend received from another O.T.C., which is treated as part of the trading income of the recipient.

As United Kingdom income tax will remain chargeable on the investment income of an O.T.C., there is no need for any assessment under Case VI in respect of the part of the dividend paid out of the investment income.

Controlled Companies

Trading income will not be charged to United Kingdom taxation until it is distributed to a person resident in the United Kingdom (Sections 25 and 26, Finance Act, 1957). But the Special Commissioners may continue to make directions on O.T.C.'s falling within the scope of Sections 245 *et seq.* of the Income Tax Act, 1952. In determining whether the company has made a reasonable distribution, under the provisions of Section 33, Finance Act, 1957, the Special Commissioners must ignore any suggestions by the directors that they have not recommended a greater dividend because of the provisions of this year's Finance Act and must ignore any contentions that a greater dividend could be declared because of the reliefs in the Act. If a direction is made under Section 245, a Schedule D Case VI assessment on an amount equal to the undistributed exempt trading income will be made for the year of assessment in which the accounting period ends. Double taxation relief can, in appropriate circumstances, be claimed against these assessments. The Commissioners of Inland Revenue are to make regulations regarding the computation for this purpose of the amount of the exempt trading income arising in any period.

(*To be concluded*)

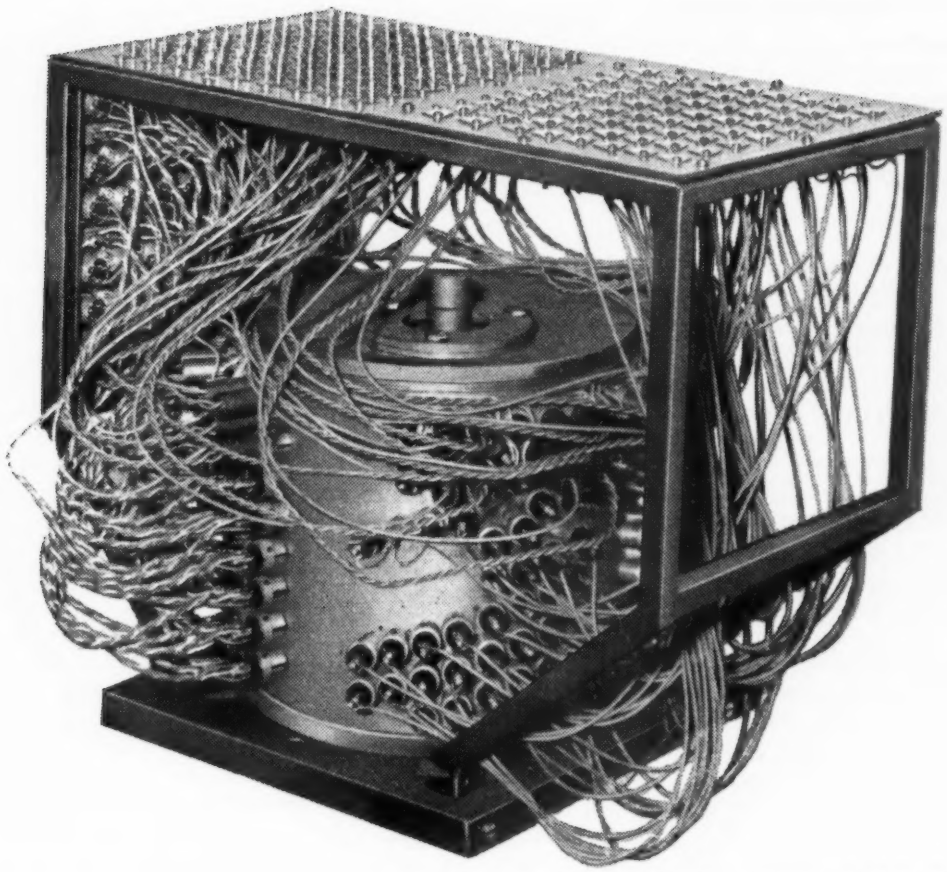
Professional Earnings after Death or Retirement

THE PROFITS OF a profession or vocation are assessable to tax under Case II of Schedule D, and are normally computed on the full amount of the profits or gains of the year preceding the year of assessment.

There are two methods of computing profits under Case II: (i) on the "earnings basis" and (ii) on the "cash basis." On the earnings basis outstanding fees are brought into account and are valued at the terminal date in the same way that outstanding debts are valued in computing the profits of a trade (the same rules apply in computing the profits of a trade under Case I and the profits of a profession or vocation under Case II). On the cash basis uncollected fees are ignored, the assessable profit being the excess of cash receipts over expenses actually paid during the same accounting period.

Cash Basis

Accounts on the cash basis are usually accepted for a professional man or partnership, if accounting on that basis has been the established practice in the particular case, but the earnings basis will be required at least for the opening years of a new practice (except for a barrister who may adopt the cash basis throughout), and on a partnership change in which election is made under the proviso to Section 145 (1) of the Income Tax Act, 1952. Some professions, by their very nature, can be taxed only on the cash basis. Since barristers cannot sue for their fees, they earn what they are paid only when they are paid. Accordingly, fees unpaid when they retire are untaxed. In some other professions, too, the cash basis seems the only one capable of adoption. In *Stainer's Executors* v. *Purchase* (1951, 32 T.C. 367), Counsel for the Crown said: "On every commercial principle it is unthinkable that the deceased (a film producer and actor) should have been taxed in his lifetime on any other basis than he was" [the cash basis]. And the same rule applies to authors



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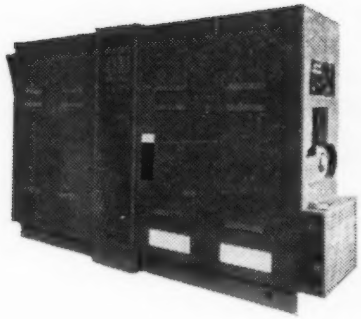

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and others where it may be impossible to value prospective earnings or even ascertain the dates at which they may accrue. The method of dealing with outstanding fees when the earnings basis is first adopted but the method of computation is subsequently changed to the cash basis was considered in *C.I.R.* v. *Morrison* (1932, 17 T.C. 325).

Residual Payments

A more difficult problem concerns the rewards of professional and vocational services, and the profits of trade, in the hands of legal personal representatives. The general principle to be applied if the taxpayer during his lifetime was assessed under Case I or Case II of Schedule D was stated by Rowlatt, J., in *Bennett* v. *Ogston* (1930, 15 T.C. 374, 378), in these terms: "When a trader or a follower of a profession or vocation dies or goes out of business . . . and there remains to be collected sums owing for goods supplied during the existence of the business or for services rendered by the professional man during the course of his life or his business, there is no question of assessing those receipts to income tax: they are the receipts of the business while it lasted, they are the arrears of the business, they represent money which was earned during the life of the business and are taken to be covered by the assessment made during the life of the business, whether that assessment was made on the basis of bookings or on the basis of receipts."

"Interest of Money"

In that case a moneylender made loans on promissory notes which provided for payment to him of monthly or more frequent instalments. Instalments of interest due and paid prior to his death were treated as profits of the business and assessed under Case I of Schedule D. After his death, however, instalments of interest collected by his executor were assessed as "interest of money" under Case III of Schedule D. Rowlatt, J., held that the assessment was correctly made, since the interest in question was not the accrued earnings of the capital during the life of the deceased or the time the business was carried on, but the earnings of the capital, or so much of it as was not repaid, since the death of the taxpayer.

Stainer's Executors* v. *Purchase

The case of *Stainer's Executors* v. *Purchase* (supra) concerned the film actor Leslie Howard (whose full name was Leslie Howard Stainer). Before his death in 1943, Mr. Howard entered into a number of contracts with film producing companies whereby he agreed to perform in and to produce certain films in consideration of lump sum payments (about which no point arose) together with a share of the receipts or profits of the films. In the case of one of the films Mr. Howard owned the copyright in the story and the "shooting" rights. During his lifetime he had been assessed on his professional earnings under Case II of Schedule D. After his death, payments on account of his share of the earnings of the films were made to his executors, and the Crown claimed that such payments were assessable to income tax under Case III or Case VI of Schedule D. It was agreed that they could not be assessed under Case II since the film actor, having died, had ceased to carry on his profession. It was also common ground between the parties that the position would be precisely the same if Mr. Howard had not died but had retired from his profession in 1943. His liability to tax would be the same as that of his executors.

In the House of Lords Lord Simonds, L.C., said the general principle expounded by Rowlatt, J., in *Bennett* v. *Ogston* (supra) was correctly stated, but he doubted whether the learned Judge had correctly applied the principle in the case before him (notwithstanding the distinguishing feature in that case that the outstanding interest in the hands of the executor was earned, not during the moneylender's lifetime, but after his death).

The House of Lords held that in Mr. Howard's case his professional activities and earnings were alone the source of the payments in the hands of his executors. If it were not possible to bring those residual receipts into account in the years in which they were earned, the result was not to change the character of the payments subsequently, but to exhibit that some professional earnings might escape the income tax net altogether. They rejected a contention that the contracts were "income bearing assets" so as to enable the income derived under them to be assessed under Case III. They were contracts for personal services and simply provided the machinery by which those services were to be rendered on the one hand, and remunerated on the other. And as the payments were professional earnings Case VI was also inapplicable.

Following the decision in *Stainer's* case, it was held in *Rankine* v. *C.I.R.* (1952, 32 T.C. 520) that no change could be made retrospectively from the cash basis to the earnings basis so as, by means of additional assessments, to re-open past assessments under which the tax liability of a dissolved firm had been exhausted.

Carson* v. *Cheyney's Executor

In *Carson* v. *Cheyney's Executor* (1957, 2 All E.R. 698) the Crown sought to distinguish *Stainer's Executors* v. *Purchase* (supra) and to apply the decision in *Bennett* v. *Ogston* (supra). During his lifetime Peter Cheyney, the author of detective fiction, entered into four contracts (among others) with publishers. Three of the contracts related to books which had not then been written and as to which, therefore, no copyright could be in existence. The fourth dealt with the exploitation in French of an existing work which was the subject matter of copyright.

It is established law that an author or dramatist, following a vocation as such, is assessable under Case II of Schedule D on his profits from royalties, lump sums received in commutation of royalties, and lump sums received for the sale of copyright (*Glasson* v. *Rougier*, 1944, 26 T.C. 86; *Billam* v. *Griffith*, 1941, 23 T.C. 757). Accordingly Peter Cheyney, as an author, was so assessed up to the time of his death. After the date of death the Inland Revenue sought to bring into charge, for tax for the financial years 1951/2 and 1952/3, (i) royalties received by his executor under contracts made by Mr. Cheyney and (ii) royalties received under contracts made by the executor. The General Commissioners confirmed the

assessments on (ii) but decided that (i) were exempt from tax.

The Crown appealed and contended that Mr. Cheyney as a writer produced a series of valuable incorporeal assets in no sense co-terminus with the lifetime of his exercise of his profession. What continued to bring in the royalties, they said, was the exploitation of the right to publish after the professional activity had been discontinued. That made the case analogous to *Bennett* v. *Ogston* (supra). What Mr. Cheyney had clearly and demonstrably done was to enjoy income from property. (For this last contention they relied on *Curtis Brown, Ltd.* v. *Jarvis*, 1929, 14 T.C. 744, where it was held that royalties received by literary agents in respect of books written outside the United Kingdom were annual profits or gains arising from property in the United Kingdom and so were assessable to income tax under Schedule D.)

But the Court refused to accept these arguments. So far as the first three contracts were concerned, said Harman, J., the royalty payments were professional remuneration to the author for services to be rendered in writing the books contracted for. In those cases there was nothing in the nature of copyright in existence to be exploited like the money in the moneylender's case. The fourth case was not a contract for services to be rendered, but a contract to receive payment for a licence to be given. On the whole, however, the distinction was too fine, and all the contracts should be looked at as part of the professional activities of the author. It was to be observed that, in one of the instances in *Stainer's* case (supra) the scenario of the film (in itself the subject matter of copyright) was in existence and was the actor's property. The appeal must therefore, the Court held, be dismissed.

Maybe the case will go further; maybe the law will in time be altered. Meanwhile it is clear that the residual earnings of professional men can escape the tax net altogether. But whether an author can retire is a different matter. "You cannot retire as an author," said the learned judge, "how do you retire as an author? You announce to your public that you will not write another book, but you may write another one to-morrow." But that is a view that was given only *obiter*, and other professional men who have "retired" may also change their minds and go back to work tomorrow.

Annual Payments—II*

Payee Within the Tax Control

Another point of interest is that a payment will not rank as an "annual payment" for the above purposes unless it is one from which tax can be deducted under General Rule 19 or General Rule 21 (now Sections 169 and 170 of the Income Tax Act, 1952). For example, if the recipient of the income is resident abroad and is not within the scope of the Income Tax Acts, tax would not be deductible and accordingly the payment would not be treated as an "annual payment," notwithstanding that it might otherwise have the characteristics of such a payment.

Thus in *Bingham* v. *I.R.*, 1955, 3 A.E.R. 321, an order had been made by a foreign court directing the payment of alimony to the divorced wife of the taxpayer. The taxpayer while resident in this country had made his annual payments of the alimony to his wife who was resident abroad and these payments were purported to be made out of profits and gains brought into charge. It was held that as tax could not have been deducted from the payments under General Rule 19 the payments were not deductible as "annual sums" from the taxpayer's total income for surtax purposes under Section 39 (3) of the Finance Act, 1927. (See now Section 2 (2) (*a*) of the Income Tax Act, 1952.) The ground of this decision was that this method of collecting tax by requiring the payer to deduct the tax against the recipient could apply only when the recipient was liable to taxation. Incidentally, had the wife in this case been liable to United Kingdom tax as, for instance, if the order had been made by an English court, the position would have been different even if the payments were still made to her abroad; for General Rules 19 and 21, it has been clearly decided, may apply to payments made abroad. (See Lord Wright in *Rhokana Corporation Ltd.* v. *I.R.*, 1937, 2 A.E.R., page 89.)

Yearly Interest

It will have been observed that Section 169 speaks of "yearly interest." The interest must be "yearly" in order that the right of deduction at the source should arise under Section 169 (payments made out of a taxed fund of income).

The deduction, therefore, may not be made from interest payable on short loans, such as advances made temporarily and intended to be repaid well within a year (*Sharpe* v. *Blake*, 1889, 23 Q.B.D. 324). If, however, the payment is not made out of a taxed fund, the payer must

* The first part of this article was published in our August issue, on pages 346-7.

deduct tax at the source under Section 179 which applies to any interest, yearly or otherwise, and account for the tax deducted to the Revenue.

There is no precise definition of the expression "*yearly* interest" but in order to have that character the interest must be calculable by periods of not less than one year, must be reserved *de anno in annum* and the loan must be intended to be of some permanency and, as it were, in the nature of an investment. In *Garston Overseers* v. *Carlisle*, 1915, 3 K.B. 381, the interest, which was paid half-yearly and was calculated on a daily balance, was held not to be "yearly." If the interest is calculable by periods of not less than one year, it will be "yearly" even though the obligation to pay it may cease before the end of a year. Thus interest payable on outstanding purchase money after the date for completion will be "yearly" and tax will be deductible from it (*Bebb* v. *Bunny*, 1854, I.K. & J. 216). On this point reference should also be made to *I.R.* v. *Hay* (1924, 8 T.C. 636), which contains important observations on the features distinguishing yearly interest from other interest. In this case advances were made by solicitors to a client in connection with the purchase and sale of estates. The transactions extended over a number of years, both the amount of the advances and the rates of interest fluctuating from time to time. The solicitors satisfied their advances out of the income and capital moneys which they collected on behalf of the client. It was held that the interest charged on the advances by the solicitors was "yearly interest" from which tax was deductible.

Two main Categories of Annual Payments

Annual payments, when looked at from the point of view of the payee, therefore fall into two main categories. The one category comprises pure income, which is not diminished by any deduction; the other category comprises a variety of payments, which though being revenue or income receipts, have to be adjusted, by deduction for expenses and the like, only the net amount thus arrived at constituting part of the taxable income of the recipient. The former category constitutes "annual payments" in the strict sense, falling within Case III of Schedule D (see *I.R.* v. *National Book League* (*supra*)).

Looking at the matter from the point of view of the payer, it is only from the former type of "annual payment" (within Case III of Schedule D.) that he must deduct tax as against the payee.

But whatever the category of the payment when viewed from the angle of the payer, whether the payer can deduct the sum paid in arriving at his own taxable profit or income is an entirely different matter, having no relation whatever to the question whether the payment is received by the payee as wholly income, or otherwise as revenue.

Is a Legal Obligation to Pay Essential?

Another point to be emphasised is that it makes no difference whether the payment is made voluntarily or for consideration, nor whether it is imposed by Statute or not. What, however, is essential is that there must be a legal obligation to make the payment. It may be pointed out that if trustees have discretionary powers to make payments—a common example is the power to make up deficiencies of income—the payments, although there is strictly no legal obligation on the part of the trustees to make them, will nevertheless constitute "annual payments" (see *Brodie* v. *I.R.* (*supra*)).

The "Subsidy" Cases

Reference in this connection may also be made to what may be called the "subsidy cases," though in none of them was the question raised whether the payments came within Case III.

In *Lincolnshire Sugar Co. Ltd.* v. *Smart* (1937, A.C. 697), "advances" during a period from October, 1931, to January, 1932, were made to a company under the British Sugar Industry (Assistance) Act, 1931. This Act provided for advances by the Government for one year, subject to a fixed price being paid to the sugar beet growers, the advances being repayable in certain events, including a rise to a certain figure of the price of imported sugar. The advances were included as a liability in the balance sheets for each of the years ending March, 1932, 1933 and 1934, but in the events that happened, no part of the sum became repayable. It was held that as the payments were made in order that the money might be used in the business, they were not loans, but were supplementary trade receipts properly taken into computation in determining the amount of the profits of the company for the year in which they were received.

Again, in *Pontypridd and Rhondda Joint Water Board* v. *Osborne* (1946, 1 A.E.R. 668), the Board, in the event of the rates received by it being insufficient to meet its expenditure, was authorised to issue precepts to its constituent authorities. The Board contended that the sums received as the result of these precepts fell within the same principles that applied to a surplus of rates received by a rating authority from its ratepayers. In such circumstances the surplus would not be taxable, because the identity of its source with the recipients (the identity between the contributors to the rates and the recipients thereof) would preclude any question of profit.

But as far as the precepts are concerned there was no such identity between the recipient Board and the contributing constituent authorities. Viscount Simon in his judgment laid down the proposition that, subject to an exception for surplus rates, "payments in the nature of a subsidy from public funds, made to an undertaking to assist it in carrying on its trade or business, were trading receipts." Such receipts, moreover, are income notwithstanding that the recipeints may be bound to use them in a particular way and cannot enjoy them as a profit in the ordinary sense, and notwithstanding that in certain circumstances the sums might be returnable to the payer.

In other words, the important question is the quality and nature of the payments and not their destination. As Lord Normand put it in *I.R.* v. *City of London Corporation* (1953, 1 A.E.R., page 1085), "one cannot determine the nature of a payment by inquiring what becomes of it, or even what must become of it, after the payee has received it."

Whereas in the *Lincolnshire Sugar* and *Pontypridd* cases the payments were held to be trading receipts, in *I.R.* v. *City of London Corporation* (*supra*), which may be cited by way of contrast, the payments were held to be annual payments. An Act provided that the City Corporation should from time to time contribute "such moneys as shall be necessary" to the capital income of the Epping Forest fund from which the expenses of the conservators were to be defrayed. Owing to deficiencies, the Corporation in each relevant year transferred to the fund a sum equal to the deficiency. In 1948, the Corporation made a payment of some £16,000 from which it deducted tax, the payment having been made out of profits and gains brought into charge. The conservators, a charity, claimed repayment of this tax from the Revenue.

It was held that the duty imposed on the Corporation was not to discharge the debts of the conservators, or to pay a mere balancing sum in the nature of a trade receipt, but to make contributions to supplement the income of the conservators. These contributions were pure income, and constituted annual payments within Rule 1 (*a*) of Case III of Schedule D, and the conservators accordingly were entitled to recover the tax deducted.

The House of Lords held that the fact that the contribution might ultimately go to the creditors of the conservators was in no way inconsistent with the sums paid being wholly income of the conservators. And the House distinguished the case from the subsidy cases, on the ground that in those cases a trade was being carried on, while the conservators were not carrying on any trading activity and were in fact a charity. As Lord Reid put it "the payments in the present case were not of a business nature, they were of a benevolent nature, and they were not primarily made to assist in carrying on any trade or business—they were made primarily to achieve a public benefit of a charitable nature. If the (Revenue) were right, the results would be far reaching and . . . anomalous. Many, if not all, subscriptions to a charity which achieves its charitable objects by trading could properly be described as intended to supplement its trading receipts, or to assist it in carrying on its trade, but if that were the sole criterion, the result would be an unreal distinction between charities which do not trade and those which do; in the one case subscriptions would be part of their income and within Case III and in the other case not . . . I cannot see anything coherent or reasonable in so distinguishing between charities which do trade and charities which do not, but . . . to treat all business payments alike, whether or not the payer gets any direct return for them, seems to me to be eminently reasonable."

Gifts *Inter Vivos*

Section 2 (1) (*c*), Finance Act, 1894, as amended, provides that any property taken under a disposition made by any person purporting to operate as an immediate gift *inter vivos* whether by way of transfer, delivery, declaration of trust or otherwise, which shall not have been *bona fide* made five years before the death of the deceased shall be property deemed to pass on the death of the donor. Section 7 (5) of the same Act provides that the principal value of the property shall be estimated to be the price which, in the opinion of the Commissioners, such property would fetch if sold in the open market at the time of the death of the deceased. Following the decisions in the cases of *Strathcona* v. *C.I.R.*, 1929, S.C. 800, and *Sneddon* v. *Lord Advocate*, 1954, 1 All E.R. 255, H.L., estate duty has been charged under the above Sections on the actual property given valued at the donor's death. If the property had ceased to exist before the donor's death, no duty could be levied.

Section 38, Finance Act, 1957, will radically change the position if the donor dies on or after July 31, 1957, and the gift or disposition is made after April 9, 1957. The new rules are not to apply where the gift, etc., was made on or before that date, provided (*a*) if on the assumptions that the deceased had died on April 30, 1957, and that the new rules of valuation were then applicable, duty would not have been chargeable in accordance with the law then actually in force, and (*b*) the persons accountable for the duty elect by notice in writing to the Commissioners that Section 38 shall not apply to the gift, etc. The election must be made within twelve months of the deceased's death or such longer period as the Commissioners of Inland Revenue may allow. Estate duty will then be levied in accordance with the law as it was before the Finance Act, 1957.

Section 38, in its eighteen sub-Sections, does not alter the law if the donee retains the property given to him by the donor until after the donor's death. Duty will continue to be levied on the value of the property at the donor's death. If the donee disposed of the property prior to the donor's death, he was formerly liable to duty on the value of the property at that death without regard to the sale proceeds. For gifts after April 9, 1957, however, if the property comprised in a gift *inter vivos* (being neither settled property nor a gift of money) is deemed to pass on the donor's death and the donee has parted with any of it prior to the death of the donor, duty will be levied on the property (if any) received by the donee for the original subject matter of the gift. The phrase

"property received by the donee for the original subject matter of the gift" includes:

(*a*) in relation to property sold, exchanged or otherwise disposed of by the donee, any benefit received by the donee by way of consideration for the sale, exchange or other disposition; and

(*b*) in relation to a debt or security, any benefit received by the donee in or towards satisfaction or redemption thereof; and

(*c*) in relation to any right to acquire property, any property acquired in pursuance of that right.

If the donee voluntarily divests himself of any property received from the donor for a smaller consideration than its principal value at that time, the donee will be treated as continuing to have possession of the property. Furthermore, the donee will be treated as voluntarily divesting himself of property if any interest in property is merged or is extinguished in another interest held or acquired by him in the same property: the Solicitor-General in the debate on the Finance Bill pointed out that without this provision, the donor might sell to the donee the reversion in a long lease, leaving just one day in the reversion, and then give the long lease to the donee. The long lease would merge in the reversion and without the provision duty could not be charged on the gift as the subject matter thereof had ceased to exist.

Following the decision in *Attorney-General* v. *Oldham*, 1940, 2 K.B. 485, bonus shares issued by a company after the date of the gift in respect of a holding transferred by a donor to the donee were not liable to duty on the donor's death. Section 38 (4) of the 1957 Act provides that if any shares in or debentures of a body corporate are comprised in a gift *inter vivos* and the donee is issued with shares in or debentures of the same or any other body corporate otherwise than by way of exchange (shares or debentures acquired by exchange are already caught as explained in the paragraph before the last) such shares or debentures are to be deemed to be part of the original gift. Bonus shares are, therefore, to be treated as part of the gift. If, for example, the donee has the right to apply for shares or debentures on a rights issue, the shares or debentures received will be deemed to be part of the gift, but in valuing the gift any consideration given by the donee is to be deducted. For any deduction to be allowed, the consideration must be given by the donee. The donee cannot treat, as consideration given by him, sums capitalised out of reserves by the company and applied in extinguishing any liability of the donee.

Personal representatives may have to withhold distribution of an estate in which is included property given to the deceased, since the Act is to apply as if the donee had not died. If the donor has not died by the date of death of the donee, personal representatives may be faced with a charge for estate duty arising on the donor's death. As they will be unable to ascertain the amount of the charge, for their own protection they may have to withhold an excessive portion of the estate unless they receive an indemnity from the beneficiaries.

If property comprised in a gift *inter vivos* is deemed to pass on the donor's death and the property is settled, estate duty will be levied on the property comprised in the settlement at the donor's death, providing such property consists of either the property originally given or property which represents or is derived from that originally given. Bonus shares are therefore included and the decision in *Sneddon* v. *Lord Advocate* [1954] 1 All E.R. 255 (H.L.) ceases to be effective. If the trust deed relating to the settlement provides for income to be accumulated, the accumulations are treated as not derived from the original gift.

For the purposes of aggregation, any property which is to be treated as comprised in a gift *inter vivos* made by the deceased is to be deemed to be property in which the deceased had an interest except so far as it flows from property in which he never had an interest.

If the total gifts made within the five years preceding the donor's death to any one donee do not exceed £500, no duty is levied. Subsection 11 provides a marginal relief if the total gifts exceed £500, whereby the duty chargeable shall not exceed the excess of the gifts over £500.

Taxation Notes

P.A.Y.E. and Restriction of Earned Income Relief

Earned income relief is included in the figures of "free pay" in the tax tables. Prior to 1957/58, to avoid giving earned income relief on the taxpayer's earned income in excess of £2,025, it was necessary to restrict the reliefs given in the coding notice by the lesser of two-ninths of those reliefs or the pay in excess of £2,025. For 1957/58, Section 12, Finance Act, 1957, provides that the earned income relief shall be two-ninths of the amount (up to a maximum of £4,005) of the claimant's earned income, *plus* one-ninth of the amount (up to a maximum of £5,940) of any excess of his earned income over £4,005.

The new tax tables incorporate the revised reliefs. Restrictions in reliefs in coding notices will be made in future as follows:

Gross pay not exceeding £4,005—no restriction.

Gross pay exceeding £4,005 *but not* £9,945—the smaller of (*a*) one-eighth of the excess of the gross pay over £4,005 and (*b*) one-eighth of the allowances on the coding notice.

Gross pay exceeding £9,945—the smaller of (*a*) two-ninths of the excess over £9,945 and (*b*) the allowances on the coding notice.

Repatriation of Oversea Subsidiaries

The Financial Secretary to the Treasury said in the third reading of the Finance Bill that it was hoped the provisions for Overseas Trade Corporations would cause groups to decide to repatriate non-resident subsidiaries. If they so decided, the Board of Inland Revenue would be prepared to discuss the method

appropriate in the set of circumstances. One solution, he said, would be for the Board of directors to be in the United Kingdom with a local board managing operations in the oversea territory. Unfortunately, as one Member of Parliament pointed out, the laws of many countries now require a considerable degree of local independence. In our opinion, the instances in which existing organisations will be amended are unlikely to be many, but concerns may be encouraged to set up organisations overseas.

The Chancellor Furls his Umbrella

On August 1, 1957, the Chancellor of the Exchequer, in a written reply in the House of Commons, stated that he had come to the conclusion that there should now be discontinued the practice announced by his predecessors in June, 1947, and July, 1948, whereby the Special Commissioners did not give surtax directions under Section 245, Income Tax Act, 1952, in the case of a trading company which maintained a rate of dividend accepted as reasonable for periods before June, 1947, even though the profits of the company had since increased. In dealing with accounts made up for periods ending after August 1, 1957, the Special Commissioners will not regard themselves as bound by these statements but will make directions in appropriate cases by reference to the statutory test, viz. that the company has failed to distribute a reasonable part of its income from all sources, having regard to the current requirements of its business and to such other requirements as may be necessary or advisable for the maintenance and development of that business. It will now be necessary for all companies under the control of five or fewer persons (unless they are subsidiary companies of companies within the net of Section 245 or unless they are companies in which the public own 25 per cent. or more of the shares carrying voting power, those shares being quoted and dealt in on a stock exchange) to review their distribution policy. In this connection it must be remembered that by Section 246, profits are deemed to be available for distribution:

(*a*) if they have been used in or towards payment for the business, undertaking or property which the company was formed to acquire or which was the first business, undertaking or property of a substantial character in fact acquired by the company; or

(*b*) if applied in redemption of share or loan capital or debt similarly used for repaying money raised for that purpose; or

(*c*) if used in meeting any obligations of the company in respect of the acquisition of any such business, etc., or

(*d*) if employed in redemption of any share or loan capital issued or incurred otherwise than for adequate consideration; or

(*e*) if applied or intended to be applied in respect of any fictitious or artificial transaction.

Another very important feature when considering the accounts for any accounting period is the state of liquidity of the company as shown by its accounts. Many companies which have been accumulating profits since the war will now find themselves faced with the necessity for making larger distributions of profit. Whilst in every case it is necessary to have regard to the exact circumstances, the impact of profits tax on distributions is such that it is unlikely that the Special Commissioners will take any action provided a company, with no particular reason for withholding profits from distribution, applies in payment of free of tax dividends an amount in the neighbourhood of 30 per cent. of the profits after providing for current and future taxation on such profits. It must be remembered, however, that there is no magic in this figure, which provides only a very general test. In many instances a smaller distribution can be justified and there may be instances where it would not be possible to justify retention of profits remaining after the payment of such a dividend and providing for taxation.

As we have stated in these columns before, we are of the opinion that the withdrawal of the concession was overdue.

Industrial Buildings Allowances

The Board of Inland Revenue has issued a revised edition of the *Notes on Allowances for Industrial Buildings*, explaining the main features of the system of income tax allowances, including the changes made by the Finance Act, 1956. By these changes the cost of preparing land for the construction of an industrial building or for the installation of machinery or plant ranks for allowance and for the first time a capital expenditure on dredging qualifies under certain conditions. Since the booklet was originally issued, there have been many changes in the allowances, e.g. the withdrawal and reinstatement of initial allowances; the institution of investment allowances which have since been withdrawn; and the extension of the period during which "mills, factories" allowances can be claimed in respect of buildings erected before 1946.

It is one of the difficulties of income tax legislation that this booklet is published just when the Finance Act, 1957, has made a further change by including in the definition of "industrial building or structure" a bridge undertaking in respect of which expenditure is incurred after July 31, 1957.

The notes are exceedingly clear and will be of considerable value to those who have to refer to them. Accountants may obtain copies on application to the local tax office.

Residence and Income from Abroad

A booklet with this title, published by the Association of Certified and Corporate Accountants (pp. 19, obtainable from the Association at 22 Bedford Square, London, W.C.1, price 2s. net), is one of the most valuable of the publications of the Association. Since the appearance of the two studies entitled *Income from Abroad: The Assessment of Remuneration and Similar Earnings to United Kingdom Income Tax* and *Residence of Individuals and Its Effect on Liability to United Kingdom Income Tax*, the Finance Act, 1956, has brought about a number of changes of far-reaching effect. The new booklet is intended to revise and replace the two earlier ones. After a

QUEEN ELIZABETH I OPENS THE ROYAL EXCHANGE

On January 23rd, 1571, Queen Elizabeth I opened Sir Thomas Gresham's Exchange in the City of London. It did not, however, survive the Great Fire of 1666 and a new building was erected in 1669. This, too, was burnt down and the present Royal Exchange was opened by Queen Victoria in 1844. Appropriately it was the setting for the public proclamation in the City of the accession of Queen Elizabeth II.

Today, the Royal Exchange Assurance still conducts its business from here, as it has done for almost two and a half centuries. Royal Exchange Assurance offers favourable terms for Life and Endowment policies. Other types of insurance can also be arranged for the family and home. Enquiries are welcomed at the Head Office, Royal Exchange, London, E.C.3, or any local branch.

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review of residence and its general effect, the booklet deals with earned income from abroad; the effect of the Finance Act, 1956; and other income from abroad, distinguishing the rules for residence for Schedule E and for other purposes. In dealing with the position of individuals proceeding abroad, the effect of maintaining a place of abode in the United Kingdom is clarified; so also is the position obtaining if departure from the United Kingdom is not for the purpose of employment.

The position of individuals normally residing abroad who visit this country is explained and also that of individuals returning to the United Kingdom.

We know of no other publication in which the subject is so succinctly explained and the Association are to be congratulated once more upon its enterprise.

Help on U.S. Income Tax

From September 9 to 13 a representative of the Internal Revenue of the United States, Mr. William G. Beinert, will attend in room 242 of the American Embassy at 1 Grosvenor Square, London, W.1, for the purpose of providing assistance on United States income tax problems. Anyone wishing to make an appointment to see Mr. Beinert should telephone the American Embassy at GROsvenor 9000, extension 2509.

Estate Duty in Cyprus

The Cyprus Federation of Trade and Industry has recently submitted to the Governor of Cyprus a memorandum prepared by Charles W. Thacker on the effects of estate duty in the island. The booklet runs to 106 pages and 8 graphs. Estate duty was introduced into Cyprus only in 1942 and is based on the Finance Act, 1894, as amended in subsequent Acts, but already on estates of approximately £25,000 or less the duty is greater in Cyprus than in the United Kingdom. Of the 287 cases completed in the five years to 1954, only fourteen were for estates of over £20,000 and 185 were for estates of under £5,000, so that such a memorandum is obviously necessary!

The full impact of estate duty has not been felt since only fifteen years have passed since its introduction. The memorandum serves a useful purpose, therefore, in indicating the hardships of the Cyprus legislation, before any disastrous consequences ensue, by comparing the system with that of the United Kingdom. In Cyprus there are restrictions on the proportion of the deceased's estate which he can dispose of by will, unless he or his father was born in the United Kingdom or a self governing dominion. For example, if a person dies leaving a spouse and descendants, or only descendants, he can dispose only of one-third of the net value of his estate. The memorandum concludes with various recommendations, including one to abolish estate duty in the island because of its disincentive effect and because of the fact that it yields only £40,000, out of a yearly revenue of £10 million.

From Bill to Act—O.T.C.'s

In the August issue of ACCOUNTANCY, page 349, line 11 should read: "company will not enjoy relief by being." It is regretted that by a misprint the word "not" was omitted.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

Income Tax

Schedule E—Profits from employment—Managing director of company—Secretary and director of company—Transfers of shares to them pursuant to agreements—Transferors chief shareholders in company—Covenants under transfer agreements for future services—Whether values of shares profits of employments—Income Tax Act, 1952, Schedule E, Section 156, Schedule IX, paragraphs 1, 4.

Bearsley *v.* Bridges, Hewitt *v.* Bridges (C.A., April 11, 1957, T.R. 89) was noted in our issue of April last (page 172). For the Revenue, it was claimed that the values of certain shares transferred to the appellants constituted profits from their employment assessable as income under Schedule E. The Special Commissioners had decided for the appellants. On appeal to the High Court, Danckwerts, J., had reversed this decision, only to have his decision reversed in the Court of Appeal by a majority, Jenkins, L.J., dissenting. Despite the curious position revealed by the facts, the case raises important issues and will probably be taken by the Revenue to the House of Lords.

The facts were set out fully in our earlier note. In the lower Court Danckwerts, J., had held on the decided cases that the introduction of consideration into the covenants prevented the transfers from being regarded as personal gifts and linked them up with the service of the appellants as officers of the company. Jenkins, L.J., in his dissenting judgment said that if Mr. Frank Hornby (the deceased chairman of Meccano Ltd.) had given the appellants substantial holdings of shares in the company by his will it seemed to him that it would have been an act of bounty wholly removed from the sphere of remuneration and the result would, he thought, be the same had the appellants been content with the oral and purely voluntary promises of the Hornby brothers (the sons of Mr. Frank Hornby). On the advice of their solicitor, they had chosen instead to take the shares from the brothers on the terms of the deeds and they had been given and accepted in that form, received by Mr. Bearsley in his capacity of managing director and by Mr. Hewitt as director and secretary; and the effect of the deeds seemed to him to be inescapable. The argument of counsel seemed to him to confound the motive for the gift with the character of the benefit conferred. He rejected the alternative argument that the assessment should be for the year 1945/46 based on the value of the rights at December, 1945, and

also a special argument for Mr. Hewitt based on the fact that although he had continued to hold his offices until the end of 1949 he had ceased to be secretary in January, 1951.

The judgment of Morris, L.J., was a careful analysis of the factual and legal positions, with a definite finding that the transfers should be regarded as gifts rather than remuneration. The fact of the deeds having been entered into did not, he held, negative the view that the transfers were by way of gift. The company was not a party to the deeds of covenant and there was no suggestion in the case that the transfers were intended to make up for inadequate remuneration. Bearsley's receipt of the shares in July, 1953, had, his Lordship said, nothing to do with his employment as managing director at that time: "Once Mr. Bearsley had continued to serve the company for the four-year period he might have retired—but he would still have been entitled to the shares." His Lordship said that whilst Mr. Bearsley in a limited sense was to receive his shares as managing director because he would never have had the shares had he not served and held office in Meccano Ltd.:

> In my judgment the shares were not a profit from the office of managing director because they were not received . . . for services as managing director . . . but they represented an expression of gratitude or a testimonial for what he had done, including what he had done before ever he became a director or managing director. Once the condition for the receipt of the shares was satisfied, then the shares were to be received by Mr. Bearsley whether he continued in office or not.

Sellers, L.J., in a briefer judgment came to the same general conclusions. He agreed with Danckwerts, J., that if the shares were profits of the appellants' offices they were paid for those services when the shares were transferred and assessable accordingly for the year 1953/54.

In the writer's original note he suggested that if assessable the valuation as income of rights under the deeds should be made as at December, 1949, when the appellants' covenants became executed consideration, although he underestimated the importance of this point. In their judgments Morris and Sellers, L.JJ., made it clear that the appellants' rights to the shares then became absolute. On this footing, both Bearsley and Hewitt, or either of them, could apparently have made equitable assignments for cash to, say, a company dealing in reversions at any time or times after December 30, 1949. Upon this hypothesis the writer finds it difficult to distinguish the position as regards the year of assessment and basis of valuation from that which arises where shares in a public company are issued to promoters and others on flotation.

In the lower Court, Danckwerts, J., had held the same principle to apply as created liability on taxicab tips and collections for professional cricketers. But as between taxi-drivers' tips, cricketers' and footballers' benefits and gifts like those in the present case there would seem to be an important difference of nature. The tips and benefits are normal incidents of the vocations, whilst the gifts are not. The industrious apprentice can expect to profit by his industry, but it is only in ballads that he can expect to receive in addition the hand of his master's daughter.

Surtax

Settlement by will on children of testator —Protected life interests—Surrender by granddaughter of testator of her life interest expectant on the death of her father in favour of her children, great-grandchildren of testator—Surrender upon following day by her father, son of the testator, of his own life interest—Whether surrender by mother of her expectant life interest in favour of her children a "settlement" within the mischief of Section 21 of the Finance Act, 1936.

C.I.R. *v.* Buchanan (C.A. March 13, 1957, T.R. 43) was the subject of an extended note in our issue of February, 1957 (page 71). Without repeating the facts of the case, it may be said that, whilst Vaisey, J., did not take the same view of them as the Special Commissioners, he had upheld their decision that Section 21 of the Finance Act, 1936, had no application in the circumstances of the case. A unanimous Court of Appeal reversed his decision. Section 21 had been enacted to catch parental settlements for the benefit of unmarried infant children and the basic question in the case was whether the surrender by Lady Dufferin and Ava of her life interest expectant upon the death of her father was within the extended meaning given to the word "settlement" by Section 21 (9). This provided that "the expression 'settlement' includes any disposition, trust, covenant, agreement, arrangement or transfer of assets." It was contended for the respondent that a surrender was not a disposition and, therefore, not a settlement within the meaning of the Section. Their Lordships holding to the contrary, the case was for the time being at an end. Leave to appeal to the House of Lords was given.

Profits Tax

Industrial buildings or structures allowance—Dwelling houses at colliery—"Buildings or structure likely to have little or no value to the person carrying on the trade when the mine . . . is no longer worked"—Meaning of "when"—Income Tax Act, 1945, Section 8 (3)—Finance Act, 1947, Schedule VIII, Part 1, para. 1 (1) (b).

National Coal Board *v.* C.I.R. (House of Lords, May 29, 1957, T.R. 119) was the subject of extended notes in our issues of July, 1956 (page 283), and February, 1957 (page 73). By the Income Tax Act, 1945, initial and annual allowances were to be given in respect of expenditure upon "industrial buildings or structures," but dwelling-houses, generally, were excluded. By a proviso to Section 8 (3) this exclusion was not to apply if the houses were constructed for occupation by or for the welfare of persons employed at or in connection with the working of a mine "if the building or structure is likely to have little or no value to the person carrying on the trade when the mine is no longer worked." The issue was in respect of 124 houses owned by the National Coal Board at Thoresby mine, Edwinstone, Notts., and occupied by its employees. The best estimate was that the working life of the mine would extend to the year 2141 and the Special Commissioners had found that the houses were likely to have substantial value until 2091. On the basis of these vague estimates the Commissioners had held that they were within the exempting proviso. Roxburgh, J., had affirmed their decision; but in the Court of Appeal, Romer, L.J., dissenting, the majority consisting of Singleton and Morris, L.JJ., had held that in the circumstances of the case "when" in the proviso should be read as if it were "if." In the House of Lords the decision of the Court of Appeal was unanimously affirmed, Lord Radcliffe giving the only full opinion.

In the course of it he said that the Thoresby mine had a very long expected life which was likely to be substantially longer than the physical life of the houses. This consideration he held to be irrelevant to the proviso conferring the allowance; the value to be taken into account was the value as affected by the closing of the mine and not the value as

affected by the normal physical decay of the building itself. The enterprise, he said, was likely to be longer-lived even than an ordinary dwelling-house and that comparison took the case away from the special cases for which the proviso was designed and contributed nothing to bring it within it.

The House of Lords, as the final Court, has, as is well known, a freedom of interpretation of statutory language which the other Courts do not possess. In effect, their Lordships have found themselves able to limit the application of the proviso to Section 8 (3) to the requirements of commonsense. Bearing in mind the outspoken strictures of Singleton, L.J., in the Court of Appeal, the "man-in-the-street," faced by increases in fuel prices, may well wonder why the commonsense test was not applied in the first instance and the matter settled by agreement without being even taken to appeal.

Profits Tax

Man-and-wife company—Issue of bonus shares—Liquidation—Formation of new company of same name and same shareholders—Acquisition of all assets of old company by new company save sum of cash retained by liquidator—Consideration the issue of shares in the new company—Cash surplus in hands of liquidator distributed to shareholders—Whether a gross distribution—Finance Act, 1947, Sections 30, 34, 35, 36—Finance Act, 1951, Section 31.

C.I.R. *v.* Pollock and Peel Ltd. (C.A. May 24, 1957, T.R. 109), was the subject of a Professional Note in our issue of July, 1956 (page 261). The respondent company had been incorporated in May, 1942, for the purpose of carrying on an engineering business. The chargeable accounting period was the calendar year and at the end of the year 1951 the issued share capital consisted of £2,004 fully-paid £1 shares, all of one class. Mr. and Mrs. Pollock were the sole shareholders. On November 6, 1952, the company had capitalised profits amounting to £28,056 and applied that amount in paying up 28,056 £1 shares on behalf of the two shareholders, the issued share capital becoming 30,060 shares of £1. On October 31, 1953, the company went into liquidation, and a week later the liquidator entered into an agreement for the sale of the undertaking of the company and of its assets, with one important exception, to a new company of the same name and with the same shareholders. The consideration for the sale was the issue by the new company to the liquidator of 30,060 fully-paid shares of £1 each, which were transferred to Mrs. Pollock and to the personal representatives of Mr. Pollock who had died on November 8, 1953. The important asset excepted from the transfer by the liquidator of the old company to the new company was a sum of £15,030 in cash, and this sum was distributed to the shareholders in proportion to their holdings. Relying upon Section 31 of the Finance Act, 1951, it was claimed by the Crown that this was a "gross relevant distribution" for profits tax purposes in the last chargeable accounting period of the old company, that from January 1, 1953, to October 31, 1953. The Special Commissioners had held that the £15,030 was not a repayment or return of share capital and was not a gross relevant distribution. Before Upjohn, J., the Crown raised a new point as an alternative contention, arguing that the £15,030 should be dissected in order to ascertain how much of it was capital and how much income, and that the case should be sent back to the Special Commissioners. He upheld the Commissioners' decision, however, and held that there was no warrant for such dissection. A unanimous Court of Appeal affirmed his decision, Evershed, M.R., and Morris, L.J., giving the only judgments. The Crown applied for leave to appeal to the House of Lords but was referred to the Appeals Committee of the House.

By Section 35 (*c*) of the Finance Act, 1947, "distributions of capital" on cessation of a trade or business were exempted from profits tax: but, in the case of a body corporate with share capital, the exemption was limited to the total nominal amount of the paid-up share capital together with the amount of premiums if shares had been issued at a premium. In the present case, the £15,030 was equal to one-half of the relevant share capital. These provisions of Section 35 had to be read with a provision in Section 36 (4) of the same Act whereby, in the case of the transfer of a business from one company to another in consideration wholly or mainly of shares in the second company, both companies might jointly make election as had been done, whereby, *inter alia*, the distribution of shares in a winding-up of the first company to any person was not to be deemed a distribution. For the Crown, however, it was argued that the £15,030 was caught by Section 31 of the Finance Act, 1951, enacted to stop evasion of profits tax by a company first capitalising reserves and then reducing its capital or vice versa. In the present writer's opinion, Morris, L.J., hit the nail on the head when, in the course of his judgment, he said as regards the Crown's arguments:

> In considering these submissions the question arises whether Section 31 of the Finance Act, 1951, has application to the facts of this case. A Section which relates to capitalising distributable sums and to reducing capital would not seem on first approach to be a Section which would operate in the course of a liquidation.

The object of Section 31 of the 1951 Act was obviously to stop the method of evasion based on the proviso to Section 36 (1) of the 1947 Act, whereby no sum applied in reducing share capital was to be treated as a distribution. Had the draftsman of Section 31 envisaged a case other than that of a company continuing to carry on its business, he would surely have made the fact clearer.

Profits Tax

Directors' remuneration—English company—Shares registered in names of directors less than controlling interest—Controlling interest held by Danish company—Controlling interest in Danish company held by director of English company—Whether controlling interest in English company held by its directors—Finance Act, 1937, Schedule IV, paragraph 11.

S. Berendsen Ltd. v. C.I.R. (C.A. May 30, 1957, T.R. 129) was the subject of a lengthy note in our issue of July last (page 311). The facts of the case were there fully set out but, in essence, are contained in the heading to this note. Wynn-Parry, J., had held that in the circumstances the company was not director-controlled; but a unanimous Court of Appeal reversed his decision, Lord Evershed, M.R., and Morris, L.J., giving the only judgments. In his previous note the present writer referred to the artificiality of the legal conception of director control resulting from Court decisions. In the present case, Lord Evershed, M.R., in the course of his judgment said that, although the question to be determined, "treated as a matter of commonsense," appeared not to present great difficulty, the real problem was to reconcile the commonsense of the matter with the decided cases. The Court's success in solving this problem is, nevertheless, subject to possible review by the House of Lords.

Of the 1,000 shares of £5 each issued by the appellant company, 590 were held on the register by a Danish com-

pany, whilst 300 were held by a Mr. Ludwig Elsass, a director of the English company as nominee of the Danish company. Mr. Elsass, however, held 395 out of 600 shares issued by the Danish company. There was an independent holding of 100 shares in the English company by another director of the latter, so that, assuming it was not permissible to go behind the English company's share register, the 590 shares registered in the name of the Danish company made it impossible for the appellant company to be regarded as controlled by its directors. Upon the other hand, factually, Mr. Elsass through his control of the Danish company controlled or was in a position to control 900 out of the 1,000 shares issued by the English company. In *J. Bibby and Sons Ltd. v. C.I.R.* (1944, 1 All. E.R. 548; 24 A.T.C. 70; 29 T.C. 167), it had been held in the House of Lords that, subject to the memorandum and articles of the company, the question of whether director control existed was decided by the power to control votes in general meeting and was determined by the register of shareholders. After a detailed examination of the other decided cases, Lord Evershed, M.R., held that it was possible to go behind the share register as regards the holdings by bodies corporate. On this footing, he found that the answer to the question before the Court was that Mr. Ludwig Elsass by reason of his shareholding control was the person who spoke on behalf of the Danish company in every relevant sense and could control at his will and ordering the voting power in the English company of the Danish company.

Morris, L.J., gave judgment substantially to the same effect, whilst Pearce, L.J., said he agreed with both judgments.

An unusual feature of the case was Lord Evershed's admission that in giving the judgment of the Court of Appeal in *C.I.R. v. Silverts Ltd.* (1951, 1 Ch. 521; 30 A.T.C. 26; 29 T.C. 491) he had *per incuriam* seriously misrepresented the facts in *F. A. Clark and Son Ltd. v. C.I.R.* (1944, 1 All. E.R. 548; 24 A.T.C. 70; 29 T.C. 167). He had stated and dwelt on as an important fact that two directors were on the register as the holders of certain shares, whereas actually the shares in question were registered in the names of the three trustes of a settlement. The mistake had not, however, affected the result of the case; and it is remarkable how few such mistakes are made.

Estate Duty

Policy of life assurance—Settlement of policy—Premiums payable for limited period—Policy fully paid up forty years before death—Whether policy kept up for benefit of donee—Mortgage of policy with assurance company granting policy —Whether amount of mortgage deductible for estate duty purposes—Customs and Inland Revenue Act, 1881, Section 38 (2)—Customs and Inland Revenue Act, 1889, Section 11—Finance Act, 1894, Section 2 (1) (c).

In re Hodge's Policy (Ch. March 14, 1956, T.R. 59) was a case of remarkable facts. It arose out of a summons taken out by the plaintiff under Section 3 of the Administration of Justice (Miscellaneous Provisions) Act, 1933, not because a demand had been made upon him but because he was a person who had reason to suppose that one would be made in the circumstances set out hereinafter.

On September 14, 1912, a Mr. Hodge, afterwards Sir Rowland Hodge, had taken out a policy on his own life with the Royal Insurance Co. Ltd. in a sum of £10,000 with profits. Five annual premiums were payable and had been paid by the assured; and the policy had become fully-paid in 1916. In September, 1913, the assured had settled the policy by assigning it to trustees upon a voluntary settlement in favour of his son, the plaintiff Sir John Hodge. Under the settlement the trustees were to get in the policy upon the death of the assured and stand possessed of the policy monies in trust for the plaintiff absolutely on his attaining twenty-five years. The trustees had power to advance to the plaintiff whilst he was under twenty-five up to one-half of the assurance moneys. The plaintiff had become absolutely entitled to the policy and the moneys secured by it on May 1, 1938, when he became twenty-five years of age. Prior to that, by an agreement between his father,the trustees, and the assurance company made in 1935, the policy had been mortgaged to the company for £1,000 then lent and a promise to lend a further £4,000 on demand. In September, 1950, Sir Rowland had died. The gross amount payable on the policy was £16,675, whilst the mortgage with interest,etc., amounted to £5,431, so that the net amount receivable by the plaintiff was £11,244.

The Inland Revenue had demanded of the trustees of the settlement payment of estate duty upon the death of Sir Rowland Hodge, based upon Section 2 (1) (*c*) of the Finance Act, 1894, the contention being that the amount payable upon the policy was within Section 11 of the Customs and Inland Revenue Act, 1889, as being "money received under a policy of assurance effected by any person dying on or after June 1, 1889, on his life where the policy is wholly kept up by him for the benefit of a donee." Harman, J., found in favour of the Crown upon the two issues, firstly, that the policy was caught and, secondly, that the £5,431 due in respect of loans by the assurance company on the policy was not deductible, duty being payable upon the gross figure of £16,675. He said it did come as a shock that a policy which had been fully paid "for forty years"—thirty-four years, to be precise —and had not needed keeping up during that time, there being nothing to do but to wait for the death of the assured, should now attract duty although no beneficial interest in it passed from anybody to anybody else. Nevertheless, despite the arguments for the plaintiff amongst which was one that the words "*is* kept up" meant what they said, he held that the issue could not depend on the way in which the premiums were paid, whether in large sums for a small number of years or small sums for a large number, and he referred to an observation by Lord Wright in an analogous case *Barclays Bank Ltd.* v. *Attorney General* (1944, A.C. 372; 23 A.T.C. 253) that "keeping up" connoted payment of the premiums. Lord Wright's view, he said, was that a single premium policy would not be caught by the Act because it was not "kept up" at all; but he thought that was *obiter*.

Upon the second point, the argument for the plaintiff was that the charge extended only to money "received" under the policy and not to money "receivable" and was restricted to the actual amount that came to the trustees of the settlement or the sole beneficiary, the plaintiff. Harman, J., said that had the loan been from a third party and not from the assurance company, the argument would, he thought, have been untenable. As it was, he did not think the fact made any difference. The assurance company, although it could not give itself a good receipt, could, he thought, as agent for the mortgagor deduct its debt and get a good receipt from the plaintiff by paying him only the balance.

It will be observed that at the time the policy was settled it was not fully paid up. The case was not one where the Crown sought to extend the area of charge to duty but where the plaintiff in an extreme case sought to obtain reversal of a previously accepted inter-

pretation. The present estate duty, due to historical reasons, is a curious mixture of principles, sometimes incompatible with one another, together with elements which in modern conditions cannot but be termed nonsensical. That in circumstances such as those in the case there should be liability to duty will be regarded generally as not only inequitable but absurd.

Tax Cases—Advance Notes

HOUSE OF LORDS (Viscount Simonds, Lords Reid, Cohen, Keith of Avonholm and Somervell of Harrow).

Countess of Kenmare *v.* C.I.R. July 25, 1957.

Their Lordships unanimously dismissed this appeal by the taxpayer from a decision of the Court of Appeal. (See ACCOUNTANCY, November, 1956, page 456.)

C.I.R. *v.* Saunders. July 25, 1957.

Their Lordships (Lords Keith and Somervell dissenting) dismissed this appeal by the Crown from a decision of the Court of Appeal. (See ACCOUNTANCY, November, 1956, page 454.)

COURT OF APPEAL. (Lord Evershed, M.R., Morris and Pearce, L.JJ.)

Miesegaes *v.* C.I.R. July 22, 1957.

See the note in the July issue of ACCOUNTANCY (page 310).

The Court dismissed the taxpayer's appeal, holding him to be resident and ordinarily resident in the United Kingdom during the material period. The submission that a schoolboy in the U.K. merely for the purpose of education was not resident in the U.K. was rejected. Whether an individual is "ordinarily resident" is pre-eminently a question of degree and therefore of fact.

CHANCERY DIVISION (Harman, J.).

C.I.R. *v.* Whitworth Park Coal Co. Ltd. (in liquidation). July 31, 1957.

The respondent company had been nationalised. Consequently the Ministry of Fuel and Power had made various compensation payments (admittedly of an income nature) under the Coal Industry Nationalisation Acts, 1946 and 1949, and had paid interest on compensation payments, to the company. It was admitted that the company since the nationalisation of its colliery business was an investment company and accordingly a surtax direction under Finance Act, 1922, Section 21, must automatically be made. The question in dispute was what was the actual income of the company for the years in question. This depended firstly on whether the payments were chargeable under Case III or Case VI of Schedule D. If chargeable under Case III, they were admittedly assessable for the year in which they were received.

Harman, J., examined the nature of the payments in the light of the Coal, etc., Acts, 1946 and 1949, and *C.I.R.* v. *Butterley Co. Ltd.* (1956, 36 T.C. 411), and concluded that the payments, notwithstanding their peculiar character, were, in the case of payments made under the 1946 and 1949 Acts, "other annual payments" and, in the case of the interest on money compensation, interest of money. Accordingly, they were chargeable under Case III. The Crown's appeal was allowed.

Ramsden *v.* C.I.R. July 31, 1957.

This was an appeal from a decision of the Special Commissioners in favour of the Crown.

The appellant was at the material time ordinarily resident in the United Kingdom. In 1939 and 1947 he transferred shares (in F. Ltd.) to M. Ltd., a company resident abroad. It was admitted by the appellant that these transfers were transfers of assets by virtue or in consequence whereof income became payable to a person resident abroad. The appellant had been assessed to income tax under Schedule D, Case VI, under Sections 412 and 413 of the Income Tax Act, 1952, in respect of a dividend paid by F. Ltd. to M. Ltd. upon the shares transferred by the appellant.

The Special Commissioners held that there was liability under sub-Section (2) of Section 412. The appellant was owed money by M. Ltd. for the transferred shares, and the account between M. Ltd. and the appellant was described in some minutes of the company as a loan account. Harman, J., however, held that the sums owing to the appellant were simply the balance of unpaid purchase money and not a loan. The mis-description in the minutes could not make it a loan. Accordingly the decision of the Special Commissioners could not be sustained on this ground.

His Lordship, however, held that the payment of the dividend was caught by sub-Section (1) of Section 412. The right of the appellant to recover his debt from M. Ltd. was an asset and the receipt of the dividend by M. Ltd. tended to increase the value of the asset. Accordingly by sub-Section (5) the appellant had "power to enjoy" the income of M. Ltd. within sub-Section (1). The taxpayer's appeal was dismissed and the assessment confirmed.

Boston Deep-Sea Fishing & Co. Ltd. *v.* Farnham (H.M.I.T.). July 31, 1957.

The appellant company was trawler owner and also manager and agent for foreign trawlers. It also owned 49 per cent. of the shares in a French company of trawler owners, F.P.

In 1940 a trawler, St. Jean, was at Fleetwood. On the fall of France, the appellant company's managing director sent the ship to sea with a partly French crew. Throughout the war it operated under the control partly of the appellant company and partly of the Fisheries Section of the Free French navy, who approved of the use to which it was put. The appellant company was never formally appointed manager of the vessel by the Minister of War Transport, nor was there any agreement between F.P. and the appellant company prior to the fall of France. The operations of the St. Jean showed a profit and its takings and expenses were shown in an account separate to that of the appellant company. A commission was deducted by the appellant company.

After the war, F.P. approved the conduct of the appellant company during the war and received the wartime profits.

Assessments were raised on the appellant company as agent, under Schedule D, Case I, and General Rule 5 of Income Tax Act, 1918, in respect of the wartime trading profits attributable to the St. Jean.

The only question for decision by Harman, J., was whether the appellant company was "an authorised person carrying on the regular agency," within General Rule 10. If so, it would be assessable. His lordship held that it was not. It was not appointed before acting. Furthermore, there could be no agency by ratification because during the war F.P. was an alien enemy (*Firth* v. *Staines* [1897] 2 Q.B. 70). Accordingly the appeal was allowed and the assessments were discharged.

The Month in the City

Markets Idle and Steady

Last month, when the Funds, after a heavy and sustained fall, had been recovering for about a week, there followed a relapse. Since then this market has moved irregularly with an upward trend, which seemed to have exhausted itself before the middle of August. It is not easy to say exactly what has happened, but there is little doubt that the ordinary investor was attracted by the high yields and that a modest investment business took place. This was supported by the inspired leaking of the fact that no new issues of gilt-edged stock would be permitted for some weeks. Almost immediately afterwards, there seems to have been some switching by the Departments through the sale of definite longs and the purchase of the November maturity of Serial Funding stock. Its volume, however, seems to have been too small to have any appreciable effect on either quotations or the money market, which remained very short of cash and was in the Bank more than once. The effect of this last development was to make the syndicate drop its bid by 5d. to the lowest since early June, and to produce a corresponding rise in the rate as perhaps influenced also by the general rise in rates in the U.S.A. during the week, flowing from an acute shortage of loanable capital in face of prospective demand by American industry—and possibly Americans operating in Canada —for finance for further expansion. While this may have a temporary depressing effect on Wall Street prices, it seems to indicate a growing demand for production of capital goods which should result in higher wage packets and call a halt to any talk of a real recession in the U.S.A. If so, a threat will be lifted from British industry and the United Kingdom balance of payments, which could only suffer from a decline in international trade.

Equities Sagging

Meanwhile, after a short rally, industrial Ordinary shares have been rather out of favour. The very slight fall noted a month ago has been slightly accentuated and despite official talk of increasing production, it seems that profit margins show no sign of improving and may even decline further. The index of the *Financial Times* for this section has dropped below 200 for the first time since end-April. The main issue, now that unemployment is much less, is whether their exists a chance of securing a really large increase in output without a rise in costs, when full account is taken of the bringing in of much new plant. A chance which appeared to exist early in the year that there would be a reappraisal of the needs of the economy by both labour and management seems to have been missed. Another indication that a marked rise in world activity is not expected is the further fall in a considerable list of industrial raw materials, particularly base metals. For the moment at least, this fall affects adversely the oversea trade balance of the rest of the sterling area and helps to account for the rather poor showing of the gold and dollar figures during July. On August 10 France announced what in effect amounts to a partial devaluation of the franc by about 20 per cent. The move practically coincided with renewed strength of the German mark, and this strength was associated with pressures upon sterling. The weakness of the pound was largely the result of speculation and the movement of capital, induced in large degree by the growing expectation that the parity of the mark would be raised in the fairly near future. But much of the speculation and capital transactions reflected also fears that sterling might be devalued. The Funds suffered severely in consequence, and gold shares rallied. In the event, between July 22 and August 19. Government securities fell from 82.15 to 81.15 and industrial Ordinary shares from 203.1 to 198.7, after touching 204.3. Fixed interest were at the same level on each date at 89.21. Gold mines rose from 70.2 to 78.2.

New Issue Revival

While it appears that there is a ban on even the smallest of gilt-edged issues, the flow of industrial demands restarted at the end of July with a "rights" offer by *British Aluminium*. This is an offer to holders of Ordinary shares of two new shares at 58s. each for every seven held, estimated to raise some £5,750,000. The price of the old was down to 62s. 6d., so that the rights were worth only about 1s. per old share and the yield promised was under 4 per cent. Thus the offer did not look particularly attractive. None the less, it proved a good starter for the new drive to raise capital, for it was over-subscribed and soon established a premium of about 3s. The immediate cause of the offer was the need of the Canadian associate for large sums to complete stages one and two of its development, and this money represents B.A.'s part in the issue of shares by that concern. But the parent company has probable developments in prospect in other areas, notably Australia and French West Africa, to which these funds will in due course make a contribution. This no doubt explains why money can be raised on what appears in these days to be an exiguous yield. All that can be said on the reasonableness of so low a return is that aluminium shares in most other markets yield very much less. There is no doubt that investment in the metal enjoys an almost world-wide popularity at present, and it will probably be shown that it is justified. Probably, as labour costs rise further, light metals and plastics will continue to replace wood and other materials which require more hand manipulation before the finished article is ready for use.

Avro Extension

It is, perhaps, no accident that the only other major operation to be announced is also Canadian and, although it does not immediately affect the London market, reflects the extension of British enterprise in the Dominion. It is an offer by *A. V. Roe Canada*, the Hawker Siddeley's Canadian subsidiary, to acquire at least a controlling interest in Dosco, the Dominion Steel and Coal Corporation. Outright acquisition of the whole capital would call for the equivalent of some £42 million, and to obtain only 52 per cent. of the equity—the offer is conditional upon acceptance of that percentage—would be a very large operation indeed. Avro will have to raise money to complete the transaction, although a large part of the purchase price is in shares and the offer is at present provisional. If it goes through, however, the Avro group will be about the largest single undertaking of the class in Canada and, curiously, Avro will, at least technically, cease to be a subsidiary of Hawker Siddeley unless the British concern does, or has already done, something to increase its stake in Avro or Dosco. While there will be no immediate call for funds from this country, it seems that the acquisition will inevitably bring nearer the day when the Hawker Siddeley group requires to make fresh demands on British savings.

Points From Published Accounts

Steamship Accounts

Cunard Steam-Ship, the giant of all shipping concerns, continues to take full advantage of the Shipping Companies' Exemption Order in making up its accounts. Inevitably this detracts from the usefulness of the balance sheet as an indication of the group's intrinsic strength, and helps to mask the true extent of the replacement problem that is the *cri de coeur* of all shipowners these days. No doubt Cunard has its own good reasons for continuing to make use of this dispensation. *Britain Steamship* has no such inhibitions. The fleet is shown at cost, total depreciation is shown, and the net book value. The company shows the profits tax attracted on dividend payments as part of those payments. We do not share the view that this treatment is correct—it tends to give a false impression of the true earnings available for distribution. Britain Steamship's accounts have been completely recast this year in quarto size and with a stiff cover. The effect is wholly pleasing and a vast improvement on the previous accounts.

When Two are Better than One

The accounts of *Imperial Chemical Industries*, as the largest industrial company in the land, are always of considerable interest—and they are particularly so this year in their new format. A feature that we have long been advocating in these notes is the separation of the accounts from information of a more general nature, when a single publication becomes too large for comfortable handling. I.C.I. has followed this principle. Its review for 1956, accompanying the accounts under separate cover, is liberally illustrated with full colour plates showing some of the activities of the vast organisation and is fully up to the standard that would be expected from a business of this size and importance.

The accounts themselves, unfortunately, do not make such a favourable impression, largely because of a cramped layout and a disappointing choice of type faces. The headings in bold type are much too heavy and throw the whole presentation out of balance. Previously, two pages were devoted to each of the balance sheets, and it is a retrogade step to crowd them into one page.

The style of presentation has been changed to the more modern form of showing a net assets total, so that shareholders can now see at a glance the assets attributable to their capital, and how these assets have been financed. The balance sheet has also been "cleaned up" by merely showing two items under the heading "reserves employed in the business"—"capital" and "revenue." This is excellent, but why, having gone this far, perpetuate the practice of dividing retained profits into numerous reserve items in the notes section? Why not just leave the balance sheet items as they stand?

Retained Earnings Clearly Treated

Shell Trinidad, which used to be known as The United British Oilfields of Trinidad, has also adopted a new format for its accounts, but has maintained one feature of very practical significance in the light of what we have said about I.C.I.'s accounts above. The relevant section of Shell Trinidad's balance sheet is reproduced below.

This is really all that is required, and it makes for a concise and easily understood presentation.

The accounts have been vastly improved this year by the use of a coloured cover incorporating an illustration of the outline of the island of Trinidad, and by the use of art paper with coloured diagrams and graphs inside. The effect is wholly pleasing after the somewhat drab presentations of previous years, and the company is to be congratulated on its success in making its accounts so much more readable.

Improved *Lobitos* Accounts

Oil companies as a whole have shown themselves much more progressive on the subject of public relations than the general run of industrial and commercial companies, but several of the smaller companies are still finding room for improvements of a major order. *Lobitos Oilfields*, for instance, has brought its accounts out in a size somewhat larger than quarto this year and, like Shell Trinidad, now prints them on art paper. The larger size has enabled a much clearer layout to be adopted, and this has been aided by relegating all unessential information to the notes section. Current assets are now divided into "trading assets" and "liquid assets," thus saving the shareholder the trouble of adding up these separate items for himself. The notes section in the Lobitos accounts has been sensibly laid out, but perhaps the most striking improvement is in the chairman's statement, in which the use of blue shoulder headings and half-tone photographs of some of the group's establishments and equipment has made a big difference to the presentation.

A Report for Employees

As these notes have previously pointed out, the response to the call for better information in reports and accounts has been gratifying. *United Steel*, one of the foremost concerns in its line of business, produces in addition to the main accounts an equally lavish report, specially prepared for employees. Considering the care and attention that has gone into explaining other aspects of the business it is surprising that more attention has not been devoted to the profit and loss account and balance sheet, condensed versions of which appear on two pages in the report. All unnecessary detail has been ruthlessly cut from the figures, so that, for example, readers are provided with a single figure, £59,476,996, representing "fixed assets." What an opportunity has been missed, we feel, for ramming home just what a figure of this

	As at December 31, 1956	
	£	£
Capital and Reserves—		
CAPITAL AUTHORISED AND ISSUED		
£1,500,000 Ordinary Stock in units of 6s. 8d. each ..	1,500,000	
£350,000 8 per cent. Cumulative Preference stock in units of 6s. 8d. each	350,000	1,850,000
SHARE PREMIUM		834,989
EARNINGS RETAINED AND INVESTED IN THE BUSINESS		7,000,972
Total Capital and Reserves		£9,685,961

nature implies! Far better to take the separate items and thoroughly dissect them than merely to present these two accounts with only a nominal commentary. Simple explanation is admirably done in a cartoon on the following page headed "They each have their whack," and depicting the contribution made on the one hand by the shareholders and their interests and deliveries, and on the other by the Inland Revenue, raw materials and wages. When each has had his whack at the "try your strength" fairground bell, it adds up to a grand total income of £100,674,000. This is language the people to whom it is directed can understand. Moreover it employs a subtle change of emphasis which we wholly endorse—namely, to build up to a total income figure rather than to start with a total and break it down into its constituent parts. Psychologically, the point is so important that it is a wonder that more companies do not look at things in this way. Summing up, this report, already as fine a production of its kind as one will find anywhere, would be near perfect if a little more attention was given to the presentation of the accounts themselves.

Base Stock for Metals

The "base stock" method of valuing stocks is employed by *Delta Metal*, to protect the business against fluctuations in the metal markets. The base stock is calculated on the minimum quantity essential to maintain the works in production and the figure remains constant, regardless of price movements in the raw material market; the difference is made up either as a debit from or a credit to the trading profit, depending upon whether metal prices have risen or fallen. In this way much of the fluctuation that would inevitably arise in the year-to-year operations of a business of this nature are eliminated.

The accounts have been given a new look this year and there are many detailed alterations. For one thing, the fixed assets have been revalued, necessitating a revision of the depreciation provision. The heading "deferred liabilities and provisions" has now been eliminated from the balance sheet, and the number of individual reserves has also been cut down. The net result is a very much "cleaner" balance sheet, and it is to be hoped that the directors will carry the process still further. Some wonderment may be caused by the item "reserves on book debts." If they are provisions, then why not say so? Having done so much to improve the balance sheet and profit and loss account, the company really ought not to continue to print the chairman's quite lengthy statement in a type size that puts considerable strain on the eyes, unrelieved by any headings. Attention to these small details would add immeasurably to what has already been achieved towards making the accounts readable.

Publications

Where to Look for Your Law. By C. W. Ringrose. Twelfth edition. Pp. vii+189. (*Sweet & Maxwell Ltd.:* 15s. net.)

ONE OF THE most important parts of any book on any branch of the law is the index: reference is made to it more than to any other single section. Indeed, a bad or inadequate index can mar the usefulness of an otherwise sound treatise. *Where to Look for Your Law* is in effect an index to the whole vast literature wherein the law is expounded, and to be satisfied on the usefulness of the book there is need to mention only the fact that the twelfth edition has just been published. Very aptly has Mr. Ringrose, its editor, adopted the words of Dr. Johnson: "Knowledge is of two kinds. We know a subject ourselves, or we know where we can find information upon it."

If lawyers were actually asked where they looked for the law they would probably say, "In Halsbury's *Laws* and *Statutes*, the cases and textbooks there referred to and the supplements which keep them up to date." Cross-examine them, and many would have to admit that really they first of all consult *Where to Look for Your Law*, and then send over to the library for the appropriate literature.

The law is not a subject with strict boundaries. It is the mechanism which regulates communal life no matter what pursuits each individual member may have. For those whose job it is to administer our worldly affairs and advise us in our material activities, Mr. Ringrose's book will be most helpful. J.S.O.

Executorship Law and Accounts. A Manual for Intermediate Students. By Charles E. Perry, F.C.A., F.S.A.A., and O. Griffiths, M.A., LL.B., Barrister-at-Law. Eleventh edition revised by O. Griffiths, M.A., LL.B., and S. C. Hough, A.I.B. Pp. viii+225. (*Textbooks, Ltd.:* 17s. 6d. net.)

THE USEFULNESS OF this little book has been maintained in the latest edition—a usefulness in its own way comparable with that of the more pretentious standard books on the subject. The work is not a handbook for the professional trust administrator: there is no extensive reference to cases and statutes and no index of them. It was not the intention to provide such a handbook, however. The book is for the student, and he will find it extremely helpful. The technicalities of the subject are clearly set out and such things as the principles of estate duty, that headache of the practitioner, and equitable apportionment, hardy perennial of the examination room, are very adequately dealt with.

The many worked illustrations on various points and the examples of typical examination questions (notably "writing-up" questions) all set out clearly without neglect of the practical aspect of the subject, will be a particular aid to the student. As an example of the attention to practical detail, one may cite the authors' reference to the fact that entries for cash in the house and at bank appear in the cash book only when actually paid in to the executors' bank account, although usually shown in examination work as the initial entries.

The section on intestacy and its ramifications, although using technical language sparingly, is useful. The more earnest student will have to look elsewhere, however, for any information on the law on intestacies arising before January 1, 1953, information that in professional life is often necessary.

The small Appendix II on estate duty on companies, might with advantage have contained more specific reference to the latest statute law on the subject and could also have been incorporated

in the chapter on estate duty.

There are one or two naïveties. For example, the observation that "partial intestacy will frequently arise, when a testator having disposed by his will of all his property at the date thereof (presumably by specific gift) later becomes wealthier without making further dispositions." Every practitioner knows that this is one of the rarest causes of partial intestacy, failure of trusts being far more usually the cause. Such small points are capable of correction in the next edition, and the book remains an admirable textbook for students to intermediate standard. W.W.G.

Book-keeping for Solicitors. Second edition. By R. J. Carter, B.COM., F.C.A. Pp. vi+156+index 15. (*Butterworth & Co. (Publishers) Ltd.:* 27s. 6d. net.)

THE PRINCIPLES OF book-keeping are upon analysis remarkably few. But unfortunately they are capable of many combinations and can on occasion be lost sight of when disguised by the requirements of a particular problem.

An understanding of the balance sheet of a business is the key to the appreciation of accounting technique—this is the theme taken by the author for teaching book-keeping. It is an interesting and fruitful approach, and the idea is well supported by adequate illustrations. At some points the reader might feel that the art of book-keeping has been reduced to an over-simplified formula, but it must be remembered that the book is addressed to solicitors, who are not expected to have to delve into the intricacies of accounting theory. Nevertheless, even if the treatment accorded a particular point is by the nature of the book somewhat laconic, the number of points which are covered or referred to is quite remarkable. Perhaps the scope is best exemplified in chapters 4 to 9 which deal with book-keeping for a trading business.

The author explains the specialised manner of dealing with solicitors' books of accounts and the way in which the Solicitors Accounts Rules affect the book-keeping procedure. There is a useful appendix of these rules at the end of the book, helpfully provided with references to examples and italicised to give emphasis to certain words and phrases. This particular section will form for practising solicitors a valuable source of guidance and reference. Footnotes to the examples are included and the reader should have no difficulty in following through the entries and interpreting them.

The index is adequate and indicates which pages are examples and which are narrative. A.C.S.

Book-keeping Simplified. Fifth edition. By W. O. Buxton, F.C.A. Pp. viii+344. (*Sir Isaac Pitman & Sons, Ltd., London:* 8s. 6d. net.)

THE FIRST EDITION of this little book was published in 1908, and in its examples the horse and cart still quaintly make a good showing against the emergent motor car, while the banks send pass books to joint stock companies.

The two stated objects of the book are to teach the student how to keep books and how to interpret accounts, but Mr. Buxton in fact devotes it to the keeping of the books, and adds some useful general commercial knowledge. There is an introductory sketch of the provisions of the Companies Act relating to share capital and debentures, though the requirements of the Eighth Schedule are only briefly referred to.

There are numerous exercises, forty-five pages of examination reprints, including some of the Institute of Bankers and the Royal Society of Arts, and end-chapter summaries are a helpful feature.

Some statements made will not be readily agreed to by all. For example, that discounts receivable "must be provided for" in the final accounts, and that "speaking generally, it is advisable that [*a*] reserve should be invested *outside the business*" (author's italics).

If such statements are made roundly, they are perhaps not of great importance, but the author is badly misleading in his explanation of sectional balancing of ledgers. In supporting the method in which the total accounts appear both in the personal and nominal ledgers, he implies that this familiar but unnecessary repetition is the secret of agreement. Momentarily forgetting his book's subtitle, he tells us that we are achieving "a kind of quadruple entry."

Apart from this lapse, the text is certainly lucid and should prove a useful first book for book-keepers. An answer book is also available at 6s. net.

M.H.W.

The Richest Man in Babylon. By George S. Clasen. Pp. 191. (*The World's Work (1913) Ltd.:* 15s. net.)

THE ENGLISH AS a race have an instinctive distrust of people who bring them a message, and the quotation on the dust jacket of this book of the words of the Vice-President of the Dale Carnegie Institute, "Ranks with *The Message to Garcia*, Franklin's *Autobiography* and *The Magic Story* among the important business preachments of modern times," is not perhaps the recommendation on this side of the Atlantic that it is on the other.

Yet the book is worth reading. It has had, in the form of a series of pamphlets, a vast circulation in the United States, and even at this distance one can see why. It is a prescription for business success, for becoming, if not rich, at the least "warm." The whole prescription could be set out on a single page. Indeed its heart and centre is a simple sentence: save at least one-tenth of everything you earn. But the elaboration of the message through a whole chain of parables set in ancient Babylon, makes it curiously more effective; and the repetition in one shape and another of its various parts does serve to press the lesson home. At first the archaic inversions are tiresome ("Therefore did I decide to find out . . ."; "No better than thou am I satisfied"), but they become acceptable as the interest grows. As that irritation passes, the more one develops of impatience with a philosophy so intensively and exclusively concerned with money. But even here second thoughts come to correct the first: the counsel offered is very sober; the recipe is essentially work and thrift, both of them laudable courses and certainly not necessarily bars to the cultivation of spiritual and cultural values.

It is a pity that on the back of the dust-cover a business executive is quoted as recommending the reading of the book every day on your knees before breakfast. But despite Mr. Clason's American admirers the book is worth reading—sitting in an armchair after dinner on two or three evenings. P.E.S.

Books Received

Guide to Examination Success. By Frank H. Jones, F.A.C.C.A., A.C.I.S. Fourth edition. Pp. 60. (*Barkeley Book Co. Ltd., 39 Lansdown Road, Stanmore, Middlesex:* 5*s.* 6d. post free.)

The Third edition was reviewed in ACCOUNTANCY, March, 1955, page 117.

Key to Munro's Elementary Book-Keeping. By Andrew Munro, F.C.I.S. New and revised edition by Alfred Palmer, A.S.A.A. Pp. 141. (*Sir Isaac Pitman & Sons Ltd.:* 10s. 6d. net.)

The Sale of Books. By P. S. Atiyah, B.A., B.C.L., Barrister-at-Law. Pp. xxv+206. (*Sir Isaac Pitman & Sons Ltd.:* 25s. net.)

City of Leeds Abstract of Accounts 1955–56: Estimates 1957–58. Pp.xvii+586. (*City Treasurer, Civic Hall, Leeds, 1.*)

Readers' Points and Queries

Subsistence Allowance to Employees

Reader's Query.—Under what circumstances may subsistence allowances be paid to employees, free of P.A.Y.E. income tax deductions? Should a scheme for such allowances be disclosed to the Inspector of Taxes before it is commenced?

Reply.—The Employer's Guide relating to the P.A.Y.E. scheme lays down that reimbursements of expenses actually incurred in the performance of the employee's duties, or payments according to a scale calculated to do no more than reimburse the actual outlay, need not be included on the tax deduction card. The payments will, therefore, be free of tax. However, the Inspector can direct that the reimbursements are to be included in emoluments and taxed. It is obvious from the decision in the case of Durbridge *v.* Sanderson *(1955, 36 T.C. 239), that cash allowances for meals are assessable on an employee. Similarly, in the cases of* Evans *v.* Richardson *and* Nagley *v.* Spilsbury *(1957, T.R. 15), lodging allowances were treated as income. Only the additional expenditure on food and lodgings over that normally expended and which is wholly, exclusively and necessarily incurred in performance of his duties is not taxable. Any scheme should before commencement be disclosed to the Inspector of Taxes.*

Age Relief and Building Society Interest

Reader's Query.—In your issue of ACCOUNTANCY in July, 1952 (page 197), you give three examples in connection with age relief and building society interest. In the first of these, you deduct from the tax payable "reduced rate relief on building society interest at 4s. in the £—£10."

Could you please explain the reason for this deduction, as it would appear there is no more relief for the building society interest once it has been deducted from the £500 quoted?

Reply.—By being included in the margin the building society interest has been taxed at 12s. 6d. in the £ at that point. By excluding the £50 *building society interest from the taxable income, tax has been saved on it at 5s. 6d. The interest has, therefore, still borne 7s. in the £ and there was a concession in 1951/52 whereby reduced rate relief was given on the building society interest. Reference can be made to* ACCOUNTANCY *for July,* 1952 *(page* 247*) and August,* 1952 *(page* 284*). The concession was withdrawn as from* 1953/54. *See the answer to a question in the House of Commons on May* 19, 1953 (515 *H. of C. Official Report Col.* 118).

Spreading Tax on Bonus to Professional Footballer

Reader's Query.—A professional footballer is employed by a Rugby League Football Club. In addition to this he holds an employment at a colliery. Both these sources of income are charged to tax under P.A.Y.E.

From October, 1955, to February, 1956, this man visited New Zealand with the touring team of that season, a tour which occurs every three years. During March, 1956, he received a bonus of £390 which was paid to him gross without deduction of tax. The whole of this sum was charged to tax by the Revenue in the fiscal period 1955/56. The footballer, at that time a bachelor, is now £190 tax underpaid.

Are there any provisions or concessions whereby this receipt may be spread for, say, three years—the regularity of the tour? The bonus was strictly in respect of the tour.

Reply.—There is no provision or concession whereby the bonus may be spread. It is assessable in the period to which it relates. See Heasman *v.* Jordan (1954) 3 *All E.R.* 101.

Residence

Reader's Query.—I should appreciate enlightenment on the position of persons employed abroad in the light of the Finance Act, 1956.

In order to determine whether a person is "resident" and "ordinarily resident" in the United Kingdom I am given to understand that any periods spent in the United Kingdom are calculated over a period of four years and, if the average for one year is more than three months, then he is treated as "resident" in the U.K. Does this mean that a person who completes, say, one 18 month tour would be treated as "resident" and "ordinarily resident" for the whole period, even though he would have spent one whole tax year abroad?

If a person is considered to be "resident" and "ordinarily resident" is he now taxed on all income earned abroad even if he received no income from the U.K. and had no place of abode there, or is he taxed on remittances only?

If a person is considered to be *not* "resident" and "ordinarily resident," is he taxable on any remittances to the U.K. and is he entitled to full personal allowances when calculating income tax on such remittances?

Reply.—The "four year" principle is applied to visitors to the United Kingdom and operates where there is a visit in each year of the four. A person coming here on an 18 months' tour will presumably be here for a temporary purpose only and be resident (but not ordinarily resident) in one or two years, according to whether he was in the U.K. for more than six months in the year of assessment.

A person who has been ordinarily resident in the U.K. must normally be outside it for a complete year of assessment before he can be regarded as non-resident.

Where the whole of the duties are performed outside the U.K., Case III of Schedule E applies and the assessment is on the remittance basis if the person is resident in the U.K. A person who is neither resident nor ordinarily resident cannot be taxed except on emoluments for duties performed in the U.K. under Case II of Schedule E.

The above must be qualified for residence in Eire or duties performed in Eire.

Assessment on Assets Held after Sale of Business

Reader's Query.—1. A. and B. were in partnership as builders. Trading activities ceased on October 30, 1942, and final accounts were prepared to December 31, 1942. At the second date the unrealised assets included:

(*a*) A completed residence let to a tenant. (It was impossible at that date to find a purchaser.)

(*b*) The balance of land, appearing at cost at £1,088.

2. A company was incorporated in 1942 (A. & B. Ltd.), A. and B. being the sole shareholders, and on November 1, 1942, acquired from the partnership stock to the value of £75 and premises (sheds, etc.) valued at £50. It took over no other assets. It did not carry on any speculative building for some years but confined its activities to contract work.

3. In December, 1954, A. and B. sold the house for £1,180 to the sitting tenant.

4. In 1950 a small part of the land was sold and in 1953 the remainder of the land was disposed of. Houses were erected on each parcel of land for the purchasers by the company. The total realised by the sale of the land was £1,914.

It now seems likely that the Inspector of Taxes will attempt to assess A. and B. on the profit arising from the above-mentioned sales and we shall be glad to hear your views on the chances of resisting assessments on the grounds that the transactions were in fact merely the realisation of assets and were not trading activities.

Reply.—The facts of the case are similar to those in Bradshaw *v.* Blunden (1956), 36 T.C. 397, *to which reference should be made. Assessments may be resisted on the grounds that A. and B. sold their business in December*, 1942, *to the company and that the house and land were retained as investments. If the latter contention is to succeed, the taxpayers must show that they have held the house and land as investments.*

Car Expenses—Driving Lessons

Reader's Query.—A professional man, assessed under Schedule D, has acquired a car and he has agreed with the Inspector the proportion of car expenses to be disallowed in respect of personal use. He has claimed in the car expenses the cost of driving lessons, but the Inspector states that the cost of such lessons "is to my mind clearly personal and, in any case, in the nature of capital outlay."

Do you agree with the Inspector's view? If this expense is of a capital nature, can annual allowances be claimed?

Reply.—The cost of learning to drive a motor car does not appear to arise in the course of the profession. It seems to be of a domestic nature to put the man in the position to drive the car. As it does not produce an asset in the nature of machinery or plant, there can be no capital allowances.

Legal Notes

Executorship Law and Trusts—Appointment of New Trustees by Administrators after Completion of Administration

C. died in 1947. By his will he named three persons as executors and trustees and he conferred on the trustees for the time being of the will certain discretionary powers; he did not confer any express power of appointing new trustees on any person. Two of the persons named in the will as executors and trustees died before the testator and the third renounced probate; letters of administration with the will annexed were then granted to two administrators. After the administration had been completed it became desirable to formulate a proper scheme for the division of the residuary estate and the question arose whether the administrators could appoint new trustees and whether those new trustees when appointed could exercise the powers conferred by the testator upon the trustees for the time being of the will.

Delivering judgment in **Re Cockburn's Will Trusts** [1957] 3 W.L.R. 212, Danckwerts, J., said "I feel no doubt about the matter at all. Whether persons are executors or administrators, once they have completed the administration in due course, they become trustees holding for the beneficiaries . . . and are bound to carry out the duties of trustees, though in the case of personal representatives they cannot be compelled to go on indefinitely acting as trustees and are entitled to appoint new trustees in their place and thus clear themselves from those duties which were not expressly conferred on them under the terms of the testator's will and which for that purpose, they are not bound to accept. It seems to me that, if they do not appoint new trustees to proceed to execute the trusts of the will, they will become trustees in the full sense. Further, it seems to me that they will have the power under Section 36 of the Trustee Act, 1925, to appoint new trustees, . . . who will be in a position to exercise the powers and discretions conferred upon the trustees of the will."

Insolvency—Setting Aside Bankruptcy Notice

Our issue for July, 1957, contained (page 318) a note of an unreported case in which a claim made by a husband against his wife under the Married Women's Property Act, 1882, was held to be capable of being a "cross-demand" under Bankruptcy Rule 137 when he was served with a bankruptcy notice by his wife. The case has now been reported as **In re a Debtor, No. 80 of 1957** [1957] 3 W.L.R. 184.

Miscellaneous—Abandonment of Rights under Compulsory Purchase Order

In **Grice *v.* Dudley Corporation** [1957] 3 W.L.R. 314, the corporation had in 1937 made a compulsory purchase order authorising them to acquire K.'s land for the purpose of road widening and erecting a market hall. The order was confirmed by the Minister and in January, 1939, the Corporation served a notice to treat upon K. In July, 1939, the price was agreed but owing to the outbreak of war the matter lapsed. In 1955 the Corporation told K.'s executors that they proposed to proceed with their purchase and the executors applied to the court for a declaration that the notice to treat was no longer valid.

Upjohn, J., said that, once the notice to treat had been served, no further period was laid down by statute within which the next step to acquire the property must be taken, but the authorities established three propositions. First, the promoter exercising statutory powers must proceed to enforce his notice in what in all the circumstances of the case is a reasonable period. If he sleeps on his rights, he will be barred if his delay is not explained. If it is explained, he will be allowed to enforce the notice provided it is equitable that he should do so in all the circumstances of the case. But the oppression upon the owner of the land cannot be wholly disregarded, however sound the reason for delay. Second, the promoter may evince an intention to abandon the rights given to him by the notice to treat, in which case the owner is entitled to treat those rights as abandoned. Third, the court has an inherent jurisdiction to control the exercise of statutory powers if, but only if, it can see that the powers are being exercised not in accordance with the purpose for which they were conferred.

Applying these principles to the case before him his Lordship held that the notice to treat had ceased to be effective, because the Corporation had abandoned their original plan of road widening and

erecting a market hall: they now wished to use the land for some other purpose which had not been finally established. His Lordship left open the question whether the notice would in any case have been invalidated by the delay if the Corporation had still intended to carry out their original plan.

Miscellaneous—
Reference to Industrial Disputes Tribunal

The Industrial Disputes Order, 1951, authorises the Minister of Labour in certain circumstances to refer a "dispute" to the Industrial Disputes Tribunal, and when the Tribunal has made its award it is an implied term of the contract between the employer and workers to whom the award applies that the terms and conditions of employment to be observed under the contract are to be in accordance with the award until varied by agreement or by a subsequent award. Under the definition section "dispute" does not include a dispute as to the employment or non-employment of any person or as to whether any person should or should not be a member of any trade union but, save as aforesaid, means any dispute between an employer and workmen in the employment of that employer connected with the terms of the employment or with the conditions of labour of any of those workmen.

In **R. *v.* Industrial Disputes Tribunal *ex parte* Queen Mary College** [1957] 3 W.L.R. 283, C., a laboratory assistant employed by the College, applied for promotion to a higher grade. The College turned down the application and C. then referred the matter to his trade union who requested the College to discuss the matter with them. The College took the view that the question whether any individual technician was to be upgraded was purely a domestic matter and they were unwilling to discuss it with the union. After some correspondence the union reported the matter to the Minister and he referred the dispute to the Tribunal. The College then moved for an order prohibiting the Tribunal from proceeding with the reference on the ground that there was no "dispute" because only one workman was concerned.

Now, the definition section does refer to a dispute between an employer and *workmen* and it has been held in ***R.* v. *National Arbitration Tribunal ex parte South Shields Corporation*** (1952, 1 K.B., 46) (the "Town Clerk's" case) that there could not be a "dispute" between a single workman and his employer. But the Divisional Court pointed out that all sorts of industrial disputes arise out of a claim made by one man, and if other employees or a union consider that some general principle is involved and support the individual making the claim then they may become parties to the dispute. On the facts of this case the union had made itself a party to the dispute and the Tribunal had jurisdiction to proceed with the reference.

Letters to the Editor

Composition of Stamp Duty on Cheque

Sir,—Provision has been made by Section 39 of the Finance Act, 1956, for banks to pay composition in respect of cheques, dividend warrants, bankers' drafts and the like which are charged stamp duty at 2d. It would be appreciated if any of your readers who have taken advantage of this provision could give the benefit of their experience.

Yours faithfully,

C. BERNARD HILL, A.S.A.A.

London, S.W.1.

Marginal Costing

Sir,—As the author of the article on marginal costing appearing in your issue of August (pages 340–41), I should like to get in touch with firms or individuals who are interested in the subject, especially those having practical experience of it and willing to participate in a "clearing-pool" of ideas and experiences.

Yours faithfully,

ALLEN SHEPPARD, B.SC.(ECON.), A.C.C.S.

Ilford, Essex.

[Any interested readers are invited to communicate with Mr. Hill or Mr. Sheppard either directly or through me.—Editor, ACCOUNTANCY.]

Notices

The **Accountants' Christian Fellowship** has arranged monthly meetings to hear speakers throughout the winter of 1957/58. These meetings, to which non-members are welcomed, will be followed by discussion meetings for students. Monthly meetings for Bible reading and prayer are held throughout the year. The September meeting will be at 12.30 p.m. on September 2 in the vestry of St. Mary Woolnoth Church, King William Street, London, E.C.3. The Fellowship asks us to state that it was formed in November, 1953, with the object of promoting fellowship among Christians preparing for and engaged in accountancy and by so doing to seek to extend the Kingdom of God. Its basis is the acceptance of the principles of the Christian faith as taught in the scriptures, particularly a personal trust in our Lord and Saviour, Jesus Christ. The Fellowship is interdenominational and membership is open to all accountants and accountancy students. At the present time there are about four hundred members and the number is increasing. The Fellowship will welcome as members all those who love our Lord and Saviour, Jesus Christ, in sincerity and in truth, and who desire to give expression to their faith within the sphere of their business life. Accountants wishing to join the Fellowship should write to the Hon. Secretary, Mr. N. Bruce Jones, C.A., 7a Princes Rise, Lewisham, S.E.13, or enquire at one of the meetings.

The **Ozamajor** photocopying machine is a compact table-top unit of British design for combined exposing and dry developing. It can reproduce drawings up to 45 inches wide: this facilitates reproduction of originals of standard Continental sizes. Speed of exposure and development is electronically controlled and synchronised at all speeds from 2 inches to 15 feet per minute. The supply of ammonia is automatically regulated, and there is automatic stacking of prints and originals. Good storage space is provided. The Ozamajor is a product of Ozalid Co. Ltd., London and Glasgow.

The Student's Columns

LIFE ASSURANCE AND RETIREMENT ANNUITIES

LIFE ASSURANCE RELIEF is allowed on premiums paid by the taxpayer or his wife in respect of an assurance or contract for a deferred annuity on his own or his wife's life. Premiums on assurances or contracts taken out on the lives of their children by the taxpayer or his wife are not allowable. Questions involving this point are frequently set in examinations.

Questions involving policies taken out on or before June 22, 1916, have not been set recently in the examinations. In the remainder of this article, therefore, the relief on policies taken out after that date will be considered. The policy of assurance must provide for a capital sum Except in respect of policies effected in connection with certain superannuation or pension schemes (where relief is restricted to premiums up to £100), the policy of assurance must provide for a capital sum payable on death.

Relief is given on the total premiums paid by husband and wife. If the aggregate premiums paid exceed £25, the relief is two-fifths of the allowable premiums. If the total premiums paid are £25 or less, the relief is £10 or the amount of the premiums, whichever is the lower. The relief is deducted from the statutory total income to arrive at the taxable income. In ascertaining the allowable premiums where these exceed £25, no account is to be taken of any part of the premium that exceeds 7 per cent. of the capital sum assured (excluding all bonuses) on each policy or any part of the aggregate premiums that exceeds one-sixth of the statutory total income.

Illustration

A taxpayer pays the following premiums on life assurance policies taken out on his own or his wife's life:

Policy	*Premium per annum*	*Capital sum assured*
A	£90	£1,200
B	40	800
C	30	500
D	10	100

Assuming his statutory total income for 1957/58 is £900, the life assurance relief for that year will be arrived at as follows:

The relief on policies A and D must be restricted to £84 and £7 respectively, being 7 per cent. of the capital sum assured. The premiums as so restricted will total £84+£40+£30+£7=£161. One-sixth of the total income is £150; therefore life assurance relief will be given on £150 and the relief will be 2/5ths of £150=£60.

The taxpayer will pay:

	£	£
Total income		900
Less Reliefs:		
Earned income	200	
Personal	240	
Life assurance	60	
	—	500
		400
First £360		£93
40 at 8/6		17
		£110

Sections 22 and 23 and the Third Schedule, Finance Act, 1956, provide that if in 1956/57 or any subsequent year of assessment a taxpayer pays a premium under an annuity contract approved by the Commissioners of Inland Revenue and providing for the payment of an annuity to the taxpayer in his old age, he will be entitled, subject to certain limits, to deduct the amount of the premium from his total income for both income tax and surtax purposes. The annuity when received will be treated as earned income of the recipient providing he or she is named in the contract. Under the provisions of Section 23, the premium must be deducted from the "relevant earnings" for the year of assessment in which the premium is paid. The term "relevant earnings" is defined as:

(*a*) income arising in respect of remuneration from an office or employment of profit held by him other than a pensionable office or employment; or

(*b*) income from any property which is attached to or forms part of the emoluments of any such office or employment of profit held by him; or

(*c*) income chargeable under Schedule B or Schedule D and immediately derived by him from the carrying on or

exercise by him of his trade, profession or vocation either as an individual or, in the case of a partnership, as a partner personally acting therein; or

(*d*) income from patent rights arising to an individual if the patent was granted for an invention actually devised by him, whether alone or jointly with any other person; but *not*

(*e*) remuneration as a controlling director of an investment company under the control of five or fewer persons.

A wife's relevant earnings are to be computed separately from her husband's. A person has a pensionable office or employment if he will receive a pension under a sponsored superannuation scheme which relates to service in particular offices or employments and makes provision for the future retirement of holders of such offices, etc.

Before the relief for any year can be ascertained, the taxpayer's "net relevant earnings" must be found. The net relevant earnings are the relevant earnings less

(*a*) payments made by him and deductible from his total income, e.g., annual payments, bank and building society interest;

(*b*) losses and capital allowances arising from activities included in computing relevant earnings.

Furthermore, if relief for losses or capital allowances is given for any year against income other than relevant earnings, the amount deducted from other income must be deducted from the relevant earnings of the next year of assessment, any balance against the next, and so on. If a taxpayer's income consists partly of relevant earnings and partly of other income, losses and capital allowances under (*b*) are to be given initially against the relevant earnings but other payments are to be set off initially against other income.

Having ascertained his net relevant earnings, the taxpayer can decide the relief available to him. This is £750, one-tenth of the net relevant earnings, or the premiums paid, whichever is the least amount. If the taxpayer was born in or before 1915, the figures of £750 and one-tenth become:

Year of birth	*Sum* £	*Percentage*
1914 or 1915	825	11 per cent.
1912 or 1913	900	12 per cent.
1910 or 1911	975	13 per cent.
1908 or 1909	1,050	14 per cent.
1907 or any earlier year	1,125	15 per cent.

Illustration

A taxpayer born in 1915 and his wife, born in 1918, have the following income in 1957/58:

	Husband £	*Wife* £
Director's remuneration not pensionable	1,200	600
Profit of greengrocer's business	4,900	
Share of profit of manufacturing business		2,700
Dividends on shares (gross)	2,000	1,800
Net annual value of house		60

The taxpayer pays £200 (gross) under a seven-year covenant with his mother. The above figures of profits are before deducting capital allowances and losses as follows:

Capital allowances, greengrocery business	£400
,, ,, manufacturing business	1,100
Section 341 relief in respect of loss in manufacturing business in 1957/58	2,400

The taxpayer pays a premium of £600 and his wife pays £100 under retirement annuity contracts approved by the Commissioners of Inland Revenue. There are four children aged 4, 6, 8 and 11, and the wife pays a premium of £150 a year on a life assurance policy for £4,000 on her husband's life.

The tax borne for 1957/58 will be:

	£	£	£
Husband:			
Directors' remuneration		1,200	
Profits of greengrocery business	4,900		
Less Capital allowances	400		
		4,500	
Net relevant earnings		5,700	
Less premium (less than £825 or 11 per cent. of £5,700)		600	
			5,100
Dividends		2,000	
Less covenant		200	
			1,800
			6,900
Wife:			
Directors' remuneration		600	
Share of profits of manufacturing business	2,700		
Less Capital allowances	1,100		
		1,600	
		2,200	
Less Part Section 341 claim		2,200	
Net relevant earnings			nil
Dividends		1,800	
Net annual value of house		60	
		1,860	
Less balance Section 341 claim		200	
			1,660
			8,560
Less National Insurance contributions			18
Statutory total income			8,542
Less Earned income relief:			
2/9ths of 4,005		890	
1/9th of 1,095		122	
£5,100		1,012	
Personal relief (P.R.)		240	
Child reliefs (C.R.)		400	
Life assurance relief (2/5ths of £150)		60	
			1,712
			6,830

	£	s.	d.
Income tax borne:			
First £360	93	0	0
6,470 at 8/6	2,749	15	0
6,830	£2,842	15	0
Surtax payable (assuming 1956/57 rates will apply):			
Statutory total income for income tax ..	8,542		
Less Excess of P.R. and C.R. over £140 ..	500		
	£8,042		
First £8,000	1,437	10	0
42 at 7/6	15	15	0
	£1,453	5	0

No relief can be given in 1957/58 for the premium of £100 paid by the wife. In 1958/59, if the wife's relevant earnings were £2,400, the retirement annuity premium paid in 1957/58 and that paid in 1958/59 could be deducted, namely:

The relevant earnings are	£2,400
Less Part of Section 341 claim in 1957/58 set off against other income	200
Net relevant earnings	£2,200

As 10 per cent. of £2,200=£220 is a greater sum than the premiums of £200 to be deducted, the premiums would be allowed.

HIRE PURCHASE ACCOUNTS

UNDER HIRE PURCHASE the recipient of goods delivered to him is a bailee who may buy the goods. A transaction frequently compared with the hire purchase but in reality quite different is the credit sale, which is a sale with the price paid, by agreement, in instalments. The practical difference between the two transactions is that under the first possession passes, with an option of subsequent purchase, while under the second the property in the goods is transferred right away and there is a sale under the Sale of Goods Act, 1893.

To accord protection to the recipient of the goods, the Hire Purchase Act of 1938 implies terms into every hire purchase and credit sale agreement and also extends, beyond what is required under common law alone, the list of contracts unenforceable unless evidenced in particular ways. The Act, as amended by the 1954 Act, applies to all agreements under which the hire purchase price or credit sale price does not exceed £300 (£1,000 for livestock).

The methods of accounting for hire purchase transactions vary in practice, but there is one main principle that should be borne in mind: all the profit on the transaction has not been earned until the final instalment has been paid and the book-keeping must consequently provide against the wrongful inflation of profits. Other factors that affect the accounting methods are the nature of the goods, the number and regularity of the transactions, the length of the period between instalment payments, the ratio of defaulters to "good" customers and the proportion of hire purchase transactions to other transactions undertaken by the business.

Let us take first the books of the recipient by hire purchase of goods of comparatively high value (we shall call him the "buyer," though he is legally the "hirer" until the last instalment is paid). The buyer debits the cash price of the goods to the asset account, crediting the "vendor" (or owner of the goods until completion of the hire purchase) with the same figure. As interest falls due for payment, each instalment is debited to interest account and credited to the vendor. Depreciation is calculated and charged in the usual manner, notwithstanding that the asset does not legally belong to the buyer: payments are made with the ultimate object of ownership and at the end of the hire period the assets must appear in the buyer's books at cost less adequate depreciation. The charge for depreciation is calculated on the cash value and the balance sheet shows the depreciated present value of the option to purchase. This method also has the advantage of recording in an account the amount due to the vendor.

Consider the following recent examination question on this method of accounting.

Question:

On January 1, 1955, a company buys assets costing £3,000, paying a deposit of 20 per cent., the balance being payable on hire purchase instalments over two years. On March 31 and every subsequent quarter, £330 is paid, and 10 per cent. is written-off for depreciation each year. Prepare the appropriate book entries.

The entries would be:

Asset account

		£			£
1955			1955		
Jan. 1	Vendor ..	3,000	Dec. 31	Depreciation	300
			Dec. 31	Balance c/d	2,700
		3,000			3,000
1956	1956				
Jan. 1	Balance c/d	2,700	Dec. 31	Depreciation	300
				Balance ..	2,400
		2,700			2,700

Vendor's account

		£			£
1955			1955		
Jan. 1	Cash—Deposit	600	Jan. 1	Asset ..	3,000
Mar. 31	Cash ..	330	Dec. 31	Hire Purchase interest	180
June 30	do. ..	330			
Sept. 30	do. ..	330			
Dec. 31	do. ..	330			
Dec. 31	Balance c/d	1,260			
		3,180			3,180
1956			1956		
Mar. 31	Cash ..	330	Jan. 1	Balance ..	1,260
June 30	do. ..	330	Dec. 31	Hire purchase interest	60
Sept. 30	do. ..	330			
Dec. 31	do. ..	330			
		1,320			1,320

Balance Sheet as at December 31, 1955

	£		£	£
Current liabilities		Asset at cost ..	3,000	
Due to hire purchase vendor	1,260	*Less* provision for depreciation	300	
				2,700

NOTES:

1. The asset account is debited with the cash price and vendor credited.

2. Vendor's account is debited with all cash paid to him.

3. Interest on hire purchase is written off to the profit and loss account over the period (two years) covered by the hire agreement.

The charge is calculated thus:

Total payable during the five years ..	£3,240
Cash price	£3,000
Interest	£240

Interest written-off £180 and £60 respectively on the basis of the average amount outstanding each year.

An alternative but more cumbersome method is to make no entry until the first instalment is paid, and to apportion this payment between capital and revenue. The interest portion will be taken to revenue eventually through the journal, and the balance of the instalment represents the proportion of the asset acquired. The cash value of the asset constitutes the basis for the interest calculation. If the rate of interest is known, it should be possible to arrive at the cash price, having regard to the data given.

A recent examination question stated that an asset was acquired on payment of a deposit of £4,000; there were to be four half-yearly payments of £3,000 each and the interest involved was at the rate of 6 per cent. per annum.

In order to arrive at the annual charge for hire purchase interest, the following calculation is required:

(*a*) Payments in year 2—£6,000 covering balance outstanding at end of year 1 and interest thereon at 6 per cent per annum. Hence $\frac{6}{106}$ of £6,000, namely, £340, is interest and $\frac{100}{106}$ of £6,000, namely, £5,660, is capital.

(*b*) The sum of £5,660, plus the payments in year 1 (£6,000), represents the balance outstanding at the beginning of the year (after the deposit has been paid), with interest. Hence $\frac{6}{106}$ of £11,660, namely, £660, is interest and $\frac{100}{106}$ of £11,660, namely, £11,000, is capital.

Another method of dealing with the purchase is to debit the asset account with the full cash price and to credit the vendor with the full amount to be paid. The difference is debited to interest suspense account and as each instalment of interest accreus, a corresponding transfer is made from the interest suspense account and interest on hire purchase account is debited. The balance sheet figure will show the vendor's account (less the balance on the interest suspense account) as a deduction from the asset account.

A similar method could be used for a credit sale, which, as explained at the beginning of this article, is an agreement to pay by instalments. On entering into the agreement, the buyer would credit the vendor with the total to be paid, debit the asset with the cash value and debit the difference to an interest suspense account. Then a proportion of the sum put to the interest suspense account would be written-off each year during the currency of the agreement.

In the seller's books, the goods are entered at their cash value in a special day book and posted to the debit of the purchaser's account. The total sales are periodically credited to sales account. Customers are debited with interest as it falls due, the interest being credited eventually to profit and loss account. There is a special interest journal for this purpose. In this way, credit is taken for profit equivalent to that earned, assuming the goods had actually been sold at their cash price in the usual way. If there are returns or default, a reserve should be made.

(*To be continued*)

THE SOCIETY OF Incorporated Accountants

District Societies and Branches

Scottish Branch

Annual Report

THE MEMBERSHIP AT December 31, 1956, was 181, with 178 students.

Mr. Stuart MacRae has been elected to the Scottish Council. Mr. David R. Bishop did not seek re-election and Mr. J. Hawthorne Paterson has resigned from the Council. Their colleagues record appreciation of their services. Mr. Paterson was formerly Assistant Secretary of the Branch and Honorary Secretary and Treasurer of the Glasgow Students' Society.

The Council records with regret the death during 1956 of Mr. James M. Roxburgh, a member of the Scottish Council, and of Mr. John A. Gough, who was a member of the Scottish Council from 1922 to 1952.

The Students' Committee carried through a programme of lectures.

The Council has obtained permission for students to attend classes in accountancy, mercantile law and economics at the universities of Edinburgh, Glasgow and Aberdeen. Day release classes, exclusively for students of the Society, are conducted at the Scottish College of Commerce, Glasgow.

The Branch is registered under the group scheme of the Scottish Nuffield Provident Society.

East Anglia

MR. R. H. TAYLOR, F.S.A.A., has been elected President.

Mr G. Lowe, A.S.A.A., has been elected as a member of the Committee to fill the vacancy caused by the resignation of Mr. W. H. G. Chapman, A.S.A.A.

West of England

THE ANNUAL GENERAL MEETING was held in Bristol on June 14, Mr. F. P. L. Roberts, President, in the chair. The annual report and financial statement were approved and adopted and the retiring members of the Committee were re-elected. Mr. John S. W. Bernard was re-appointed auditor. A vote of thanks to the President for his services to the District Society was carried by the meeting.

At a subsequent Committee meeting Mr. R. J. Hulbert was elected President and Mr. W. W. Ward, Vice-President. Mr. F. C. Smailes was re-elected Hon. Secretary and Treasurer.

Devon & Cornwall

MR. J. A. ISAAC, A.S.A.A.

Mr. J. A. Isaac, the new President of the Devon and Cornwall District Society, qualified under articles with the firm of E. C. Condy and Co. in 1939. At the outbreak of war he joined the Infantry. Later he was transferred to the Royal Armoured Corps, being with the Reconnaissance Unit from the landings in Normandy to the Baltic. He reached the rank of major. Soon after the war Mr. Isaac become director and secretary of Isaac & Uren (Engineers) Ltd., of Plymouth, and he still holds these posts. He has been lecturer at the Plymouth and Devonport Technical College. He is particularly interested in youth matters. Mr. Isaac has been a member of the Committee of the District Society since 1947.

Leicestershire ane Northamptonshire

Annual Report

THREE MEETINGS WERE held in Leicester and one in Northampton, all in co-operation with other professional bodies. An enthusiastic group has been formed in the Kettering area and has held a number of lectures.

Nine lectures for students were arranged in Leicester and four in Northampton, jointly with students of other bodies.

The District Society has 284 members.

Twenty-one students passed the Final Examination. In the Intermediate twenty-three were successful; one with Honours.

The Research and Taxation Sub-committee at Leicester and at Northampton have had an active year. Mr. D. Sirkin is chairman of the Research Sub-Committee, Mr. H. Rivington is the representative on the Committee in London, and Mr. H. Murray-Lepper is secretary of the Sub-Committee at Northampton. The work on Boot and Shoe Costings has been published and has been acclaimed as a great success.

A successful dinner was held in February. There was a golf match for members and visitors in September, 1956.

Council Meeting

JULY 24, 1957

Present: Sir Richard Yeabsley (President), Mr. F. V. Arnold, Mr. C. Percy Barrowcliff, Mr. R. Wilson Bartlett, Mr. Robert Bell, Mr. A. Blackburn, Mr. W. R. Booth, Mr. Henry Brown, Mr. W. F. Edwards, Mr. E. Cassleton Elliott, Mr. James S. Heaton, Mr. J. A. Jackson, Mr. Hugh O. Johnson, Mr. H. L. Layton, Mr. C. Yates Lloyd, Mr. Bertram Nelson, Mr. P. D. Pascho, Mr. S. L. Pleasance, Mr. F. E. Price, Mr. J. W. Richardson, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. C. H. Sutton, Mr. Percy Toothill, Colonel R. C. L. Thomas, Mr. E. J. Waldron and Mr. Richard A. Witty.

Reports of Committees

Reports were received of recent meetings of the Finance and General Purposes, Applications, and Examination and Membership Committees and of the ACCOUNTANCY Editorial Conference.

Stamp-Martin Scholarship

It was resolved that Mr. D. Grieves of Enfield be awarded a Stamp-Martin Scholarship.

Membership

The Council approved applications for admission to membership of the Society, advancement to Fellowship and registration of members in retirement.

Resignations

A report was received of the resignations from January 1, 1957, of the following members: GARLAND, Francis John (Associate) London; MCGREGOR, Eric Hutchinson (Fellow) Reading; and from April 24, 1957: MARTIN, William Sinclair (Fellow) Sunderland.

Deaths

The Council received with regret a report of the death of each of the following members: BARRETT, Robert Benjamin (Associate) Rockhampton, Queensland; BELL, Leslie Charles (Fellow) London; BENNETT, John Godfrey (Fellow) London; BROWN, John (Fellow) Dublin; DUTTON, Harold (Associate) Bradford; HEALEY, Norman (Associate) Mirfield; JANSEN, Harry Rudolph (Associate) Cardiff; MORGAN, David (Fellow) London; MOTHERSDALE, Harold (Associate) Worcester; WADLEY, Thomas Mansfield (Fellow) Port Edward, Natal; WILLIAMSON, John Moss (Fellow) Ashton-under-Lyne.

Examinations—November, 1957

THE SOCIETY'S EXAMINATIONS will be held on the following dates:

Intermediate:	November 13, 14 and 15, 1957
Final: Part I	November 12 and 13, 1957
Part II	November 14 and 15, 1957

The Centres will be Belfast, Birmingham, Cardiff, Dublin, Glasgow, Leeds, Liverpool, London, Manchester, Newcastle upon Tyne and Southampton.

Completed application forms, together with all the relevant supporting documents and the fee (Final, Part I, £4 4s.; Part II, £4 4s.; Parts I and II together, £7 7s.; Intermediate, £4 4s.) must reach the Secretary at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, not later than Friday, September 20, 1957.

Candidates are asked to obtain application forms from the Honorary Secretary of their Branch or District Society.

Final Examination

FINAL EXAMINATION CANDIDATES are reminded that, upon the introduction of the new syllabus in November, 1957, those who have already passed Part I under the old syllabus will be required to present themselves for the following papers:

(*a*) Company, Partnership and Commercial Law;
(*b*) Law relating to Executorship, Insolvency and Arbitration;
(*c*) Economics and Financial Knowledge;
(*d*) Taxation.

Those candidates who have already passed Part II under the old syllabus will be required to present themselves for the following papers:

(*a*) Advanced Accounting I;
(*b*) Advanced Accounting II;
(*c*) Auditing and Investigations;
(*d*) Management Accounting with special reference to the Interpretation of Accounts and the use of Costing Data.

Events of the Month

September 16.—*Coventry:* "Company Taxation," by Mr. J. W. Walkden, A.C.A., A.S.A.A. Rose and Crown Hotel, High Street, at 6.15 p.m.

September 18.—*Belfast:* Visit to Belfast Harbour Installation.

September 23. — *London:* "Management Accounting—I," by Mr. R. G. H. Nelson, A.S.A.A. Students' Meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

September 23–27.—*London:* Students' Pre-examination Course. King's College.

September 25.—*Belfast:* "Accounts," by Mr. P. E. Harris, A.S.A.A.

September 26.—*Oxford:* "The Role of the Internal Auditor in Industry,". Students' meeting. Kemp Restaurant, Broad Street, at 6.30 p.m.

September 27.—*Hull:* "Pension Schemes for the Self-Employed as they affect Practising Accountants," by Mr. R. M. Bangert, F.I.A. Students' meeting. Church Institute, Albion Street, at 6.15 p.m.

September 28.—*Leeds:* "Profits Tax," by Mr. C. S. Paylor, A.C.A., A.S.A.A. Students' meeting. Society's Council Room, 2 Basinghall Square, at 10.30 a.m.

September 30.—*Coventry:* "Stock Exchange Transactions and the Principles of Investment," by Mr. K. S. Carmichael, A.C.A. Rose and Crown Hotel, High Street, at 6.15 p.m.

London: "Management Accounting—II," by Mr. R. G. H. Nelson, A.S.A.A. Students' meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

October 2.—*Newcastle upon Tyne:* "Bankruptcy and Liquidation Accounts," by Mr. P. E. Harris, A.S.A.A. Lecture Theatre, Neville Hall, Neville Street, at 6 p.m.

Norwich: Inaugural luncheon. Royal Hotel, at 12.45 p.m.

October 3.—*London:* "The Principles of Double-entry Book-keeping," by Mr. J. M. Keyworth, A.S.A.A. New students' meeting. Incorporated Accountants' Hall, W.C.2, at 5.30 p.m.

Newcastle upon Tyne: "Partnership Accounts," by Mr. P. E. Harris, A.S.A.A. Lecture Theatre, Neville Hall, Neville Street, at 2.15 p.m.

October 4.—*Birmingham:* "Schedule D Case I and Capital Allowances," by Mr. K. S. Carmichael, A.C.A. Law Library, Temple Street, at 6.15 p.m.

Manchester: Dinner. Midland Hotel, at 6.30 p.m.

October 5.—*Leeds:* "Divisible Profits," by Mr. J. A. Shires, A.S.A.A. Students' meeting. Society's Council Room, 2 Basinghall Square, at 10.30 a.m.

Personal Notes

Mr. F. G. Manning, A.S.A.A., formerly Administration Officer, has been appointed Assistant Director, General Matters, in the Finance Department of the British Transport Commission.

Messrs. Bicker, Son & Dowden, Incorporated Accountants, Bournemouth, announce that Mr. Hedley J. Bicker, F.S.A.A., J.P., has retired from the partnership. He is, however, remaining as consultant. Mr. Colin H. Mead, A.C.A., A.S.A.A., who has been a member of the staff for several years, has been admitted into partnership. The style of the firm is unchanged.

Messrs. Charles Wakeling & Co., Incorporated Accountants, London, E.C.2, have admitted to partnership Mr. H. R. Johnson, A.S.A.A.

Mr. K. R. Cook, M.B.E., A.S.A.A., has taken up the appointment of Director of Audit, Zanzibar.

Mr. Bruce Davies, A.S.A.A., F.I.M.T.A., has been appointed Borough Treasurer of Richmond, Surrey.

Mr. Joseph W. Kershaw, A.S.A.A., has taken Mr. C. H. Morton, A.S.A.A., and Mr. J. B. Shepherd, A.C.A., A.S.A.A., into partnership in his practice at Bradford, which continues under the present style of Charles D. Buckle & Co., Incorporated Accountants.

Messrs. Nathaniel Duxbury, Son & Co., Blackburn, announce that they have taken into partnership Mr. C. T. Smith, A.S.A.A., who served his articles with the firm. The firm name is unchanged.

Mr. R. Crumpton, F.S.A.A., has admitted Mr. M. L. Horner, A.S.A.A., to partnership in the firm of Mumford, Haywood & Crumpton, Incorporated Accountants, Kidderminster.

Mr. H. E. Wall, A.S.A.A., has taken into partnership Mr. E. J. Humphries, A.S.A.A. The style of the practice, hitherto Rawlings, Sheppard & Wall, has been changed to Wall & Humphries, Incorporated Accountants. In addition to the premises at 1 South Parade, Bath, an office has been acquired at 128 High Street, Midsomer Norton, Bath.

The practices hitherto carried on by Mr. H. Sharp, A.S.A.A., at Hull, Patrington and Withernsea, and by Mr. R. T. Addy, A.S.A.A., at Willerby and Howden, have been amalgamated under the firm name of Sharp, Addy & Co., Incorporated Accountants.

Messrs. Eric Phillips & Co., Incorporated Accountants, London, S.W.3, announce that Mr. S. A. Schiff, M.A., A.C.A., A.S.A.A., who has been with the firm for some years, has been admitted as a partner.

Messrs. Reeve & Duffin, Nottingham, have admitted to partnership Mr. D. B. Berry, A.S.A.A.

Mr. W. R. Booth, A.S.A.A., has been appointed a director of Pease Transport (Scotland) Ltd., London, E.C.3.

Mr. E. A. Lowe, B.SC.(ECON.), A.S.A.A., has been appointed Lecturer in Accountancy in the Department of Economics and Commerce of the University of Leeds.

Mr. R. H. Kirby, A.S.A.A., is now accountant to Brigham & Cowan Ltd., South Shields.

Mr. R. Palmer, A.S.A.A., has been appointed accountant to Bintex Ltd., Harrogate, a subsidiary of the Dunlop Rubber Co. Ltd.

Removals

Messrs. T. B. Rich, Son & Horne, Incorporated Accountants, announce a change of address to Connaught Chambers, 26 Park Road, St. Anne's-on-Sea.

Messrs. Oliver Lusher & Co. have removed their Newmarket office to 71 High Street, Newmarket.

Messrs. G. L. Chick & Co., Incorporated Accountants, advise that their address is now 36 Windsor Place, Cardiff.

Messrs. Morgan & Co., Incorporated Accountants, have changed their address to 28 Baker Street, Hull.

Classified Advertisements

Two shillings and sixpence per line (average seven words). Minimum ten shillings. Box numbers one shilling extra. Replies to Box Number advertisements should be addressed Box No. . . . , c/o ACCOUNTANCY, *Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, unless otherwise stated. It is requested that the Box Number be also placed at the bottom left-hand corner of the envelope.*

THE SOCIETY'S APPOINTMENTS REGISTER
Employers who have vacancies for Incorporated Accountants on their staffs and also members seeking new appointments are invited to make use of the facilities provided by the Society's Appointments Register. No fees are payable. All enquiries should be addressed to the Appointments Officer, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2. Tel. Temple Bar 8822.

OFFICIAL NOTICES

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS
DECEMBER 1957 EXAMINATIONS

The next Intermediate and Final Examinations will be held at the usual Home Centres on the 2nd, 3rd and 4th December, 1957. Applications on Form C (obtainable on receipt of self-addressed, stamped, gummed label) should be lodged with the undersigned as soon as possible, and in any case by not later than the 10th October. No late entries will be accepted.

STANLEY J. D. BERGER
Director

63 Portland Place
London, W.1

APPOINTMENTS VACANT

BOURNEMOUTH EDUCATION COMMITTEE MUNICIPAL COLLEGE OF TECHNOLOGY AND COMMERCE

LECTURER in ACCOUNTANCY required to commence duties on 1st January, 1958. Salary according to Burnham Technical Scale, 1956, viz. £1,200 by £30 to £1,350 per annum.

Application forms and further particulars may be obtained from W. R. SMEDLEY, Chief Education Officer, Town Hall, Bournemouth, and returned as soon as possible.

A. Lindsay Clegg,
Town Clerk.

B.B.C. requires Assistant (Cost Investigations) in Finance Division. Must be member of the Institute of Cost and Works Accountants. Practical experience of large scale accounting methods including works accounting and cost investigations, ability to undertake development work and experience of writing reports on investigation, initiative and capacity to control staff essential. Salary £1,325 (possible higher if qualifications exceptional) rising by five annual increments to £1,705 p.a. max. Requests for application forms (enclosing addressed envelope and quoting reference G.311 Acty.) should reach APPOINTMENTS OFFICER, Broadcasting House, London, W.1., within five days.

FEDERATION OF BRITISH INDUSTRIES

A senior appointment mainly concerned with problems of taxation is available in the Economic Adviser's Department. Applications would be welcomed from taxation specialists with some training in economics, or from economists with a grounding in taxation law and practice. Counsel of good standing not yet specialising in taxation but qualified to do so may also be considered. Commencing salary according to qualifications in range of £1,500-£2,000, with superannuation and prospects of advancement. Apply not later than 21st September, 1957, with full particulars of qualifications to the GENERAL SECRETARY, F.B.I., 21 Tothill Street, London, S.W.1.

SCHOOL OF ORIENTAL AND AFRICAN STUDIES
University of London, W.C.1

Applications from persons, preferably women, holding recognised accountancy qualifications are invited for the post of ASSISTANT ACCOUNTANT vacant from 1 November, 1957. Salary scale £800-£50-£950 per annum, plus £60 per annum London Allowance, initial salary according to qualifications and experience, with membership of the Federated Superannuation System for Universities. Application forms (to be returned not later than 21 September, 1957), and further particulars obtainable from the Secretary.

ACCOUNTANT (unqualified) or Audit Clerk; typing desirable. Age 25-45 years. Permanent. London, S.W.1. Salary £55 per month. Apply Box No. 565, c/o ACCOUNTANCY.

ACCOUNTANTS required by Government of NORTHERN NIGERIA on contract for one tour of 12-24 months in first instance. Commencing salary according to experience in scale (including Inducement Addition) £1,170 rising to £1,824 with gratuity at rate of £150 a year. Clothing Allowance £45. Free passages for officer and wife. Assistance towards cost of children's passages and grant up to £288 a year for their maintenance in U.K. Liberal leave on full salary.

Candidates must be members of a recognised body of professional accountants and have had appropriate experience with a firm of Accountants, a Public Company or a Local Authority. They should possess organising ability and be able to control staff.

Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote MIB/43424/AD.

ACCOUNTANTS required by MALAYAN RAILWAY ADMINISTRATION, FEDERATION OF MALAYA, for one tour of three years. Salary scale (including Expatriation Pay and present temporary allowances) equivalent to £1,218 rising to £2,119 a year (single men), £1,440 rising to £2,499 a year (married men), £1,531 rising to £2,730 a year (family men). Commencing salary according to qualifications and experience. Gratuity at rate £232/£324 a year. Free passages. Liberal leave on full salary. Candidates must hold a recognised professional accountancy qualification and have at least five years' experience in railway accounting and auditing, together with a knowledge of budgetary control and the preparation of revenue and expenditure accounts. Knowledge of statistical work and mechanical accounting methods an advantage. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience, and quote M3/44151/AD.

APPLICANTS with the necessary experience requiring BETTER positions as Senior, Semi-senior and Junior AUDIT CLERKS should contact us. We have a good selection. Other Professional and Commercial posts available. HOLMES BUREAU, 10 Queen Street, E.C.4. City 1978.

AUDIT CLERKS. Many vacancies waiting for Senior, Semi-senior or Junior. Call BOOTH'S AGENCY, 80 Coleman St., Moorgate, E.C.2.

BRITISH PETROLEUM COMPANY LIMITED has a vacancy for a qualified ACCOUNTANT in the Taxation Branch at its Head Office in London. Applicants, aged about 30, should have had previous tax experience. Salary according to age, qualifications and experience. Non-contributory Pension Fund. Housing Scheme. Removal expenses and settling-in allowance payable in certain cases. Luncheon Club. Write, quoting reference H.4226, to Box 5395, c/o 191 Gresham House, E.C.2.

ELECTRICITY AUTHORITY OF CYPRUS
Vacancy for Chief Accountant and Secretary

The Chief Accountant and Secretary of the Electricity Authority of Cyprus will shortly be returning to Government Service upon termination of his secondment and the Authority desires to fill the vacancy. Applications are invited for the combined post, and also for each separate post.

Candidates must have suitable professional qualifications and appropriate experience in the electricity supply or similar industry.

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